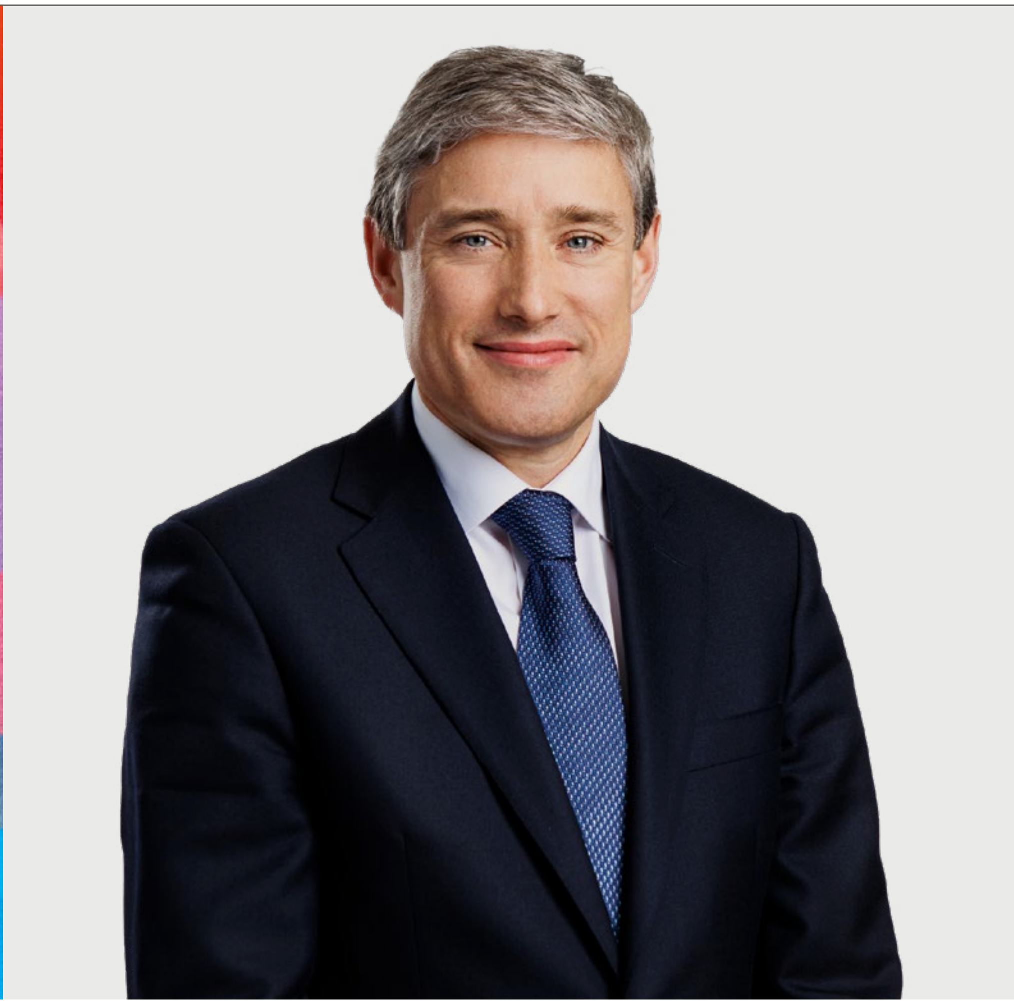


Adam Winslow
Chief Executive Officer

CEO review

With the right strategy in place and determined actions, I am confident we can deliver a net insurance margin of 13%[1] in 2026.

Note
1. Normalised for weather.

I joined Direct Line Group because I believe there is an opportunity to improve performance and nothing has changed that view since arriving. Direct Line Group has strong foundations, with a leading personal lines customer franchise, scaled market positions and some of the most recognisable brands in the market across a complementary and diverse portfolio.

The last few years have been challenging and the Group has not always delivered best value for its shareholders. We need to significantly improve our performance and I joined both to acknowledge these challenges and seek to solve them.

I believe we have a strong platform to build from. The Group has some of the most recognisable brands in the market, over 9 million customers and a diverse portfolio of assets. In addition, the management actions taken during 2023 have been the right ones. We believe that Motor has turned a corner, and with business outside Motor performing well during 2023, we expect overall performance to improve in 2024.

We have one clear agenda, an unrelenting focus on driving shareholder value by serving our customers well. We believe that through a combination of quick wins, alongside medium-term strategic opportunities, we can deliver a net insurance margin of 13% in 2026.

I have transformed legacy businesses before and understand what it takes to win in general insurance. There are immediate actions we can take in 2024 to address some of the gaps and deliver quick wins.

Reduce our cost base

There is a substantial opportunity to reduce our total cost base and significantly improve operational efficiency through reducing operational complexity and technology costs, including through increasing our use of digital channels for customers. We will focus change spend on the areas that drive most financial benefit and tighten discretionary spend.

Our marketing spend can be reduced further and we will build out customer self-service options by leveraging investments the Group has already made, for example the digital Motor claims hub and the Caha! App that we launched in 2023. Across all these levers, we have identified a series of initiatives that are expected to deliver significant cost savings by the end of 2025. The run-rate annualised cost savings have been considered in the context of a total addressable cost base of £849 million in 2023.

Approximately 54% of these savings are expected to come from technology and digitalisation initiatives and 46% from removing complexity across the Group. The savings will mainly be realised by:

- driving greater digital adoption and increasing automation, mainly across Claims, Sales and Services, as well as reducing third party technology spend, simplifying and modernising IT infrastructure; and
- simplifying operational complexity, right-sizing support functions and reducing change initiatives across the Group.

We expect to incur non-recurring costs of up to £165 million in total by 2025 to implement these savings and to help fund further opportunities towards our ambition to deliver greater savings beyond 2025. A significant amount of these costs is already assumed within the Group's ongoing capital expenditure expectations for 2024 and 2025. No dis-benefits are expected to arise from the programme.

In realising these cost savings by the end of 2025 on a run-rate annualised basis the Group is expected to deliver an expense ratio that is more in line with its comparable peer group.

Improve claims performance

The Group has strong foundations in claims, having one of the largest insurer-owned garage networks across the UK and a strong track record on counter fraud, but our competitors in recent years have caught up. We need to capture the benefits from our structural advantage by repairing more cars at lower cost through our owned network where we consistently deliver superior customer service. We are about to launch a claims transformation, which will initially focus on optimising our garage network and building on counter fraud efforts.

In 2024, we have identified immediate actions to drive value. These include adapting processes in order to leverage the DLG Auto Services advantage, increasing the speed and effectiveness of recoveries and introducing enhanced technology at policy stage to further reduce fraud.

Optimise pricing capability

A full transformation of our Motor pricing capabilities is already underway. There is more to do. In 2023, we upgraded our core pricing models and launched new products. While our capabilities have improved versus peers, there is further to go and in 2024 we will build on our efforts by developing the next generation of technical pricing models and enrich these models with more internal and external data sources while enhancing fraud protection and simplifying our Motor pricing algorithms.

Broaden market coverage

Direct Line and Churchill are two of the strongest and best known brands in the market and we need to utilise our brand portfolio to its full potential. We plan to increase our Motor PCW quotability to historical levels of over 70% in 2024 and create a clear segmentation strategy and value proposition across our different brands. As part of this work, we are evaluating whether we put Direct Line on PCWs and that decision will be shared at the Capital Markets Day in July.

Financial impact of transformation programme

We see immediate opportunities for improved performance, we plan this to be achieved primarily through:

- Tight management of the cost base through targeting discretionary spend and increasing usage of customer self-serve functionality.
- Improving claims performance by building on existing counter fraud efforts and optimising third party claims capture.
- Optimising our pricing by developing the next generation of pricing models, enriching data sources and simplifying pricing algorithms.
- Increasing market coverage by developing a clearer brand value proposition and improving PCW quotability.

Furthermore, we see greater potential benefits as we move into 2025 and 2026. We have set a target to deliver significant cost savings on an annualised run-rate basis by the end of 2025 and together with benefits from other areas of our transformation programme, we are targeting a net insurance margin, normalised for weather, of 13% in 2026.

Strategic review

Alongside the actions highlighted above, I am completing a comprehensive strategic review during the first half of 2024. I will report back to shareholders in July when I will set out our plans and update on our progress.

Capital and dividends

The Group ended 2023 with a strong capital position and a solvency capital ratio of 201% before our proposed dividend, above its risk appetite range.

The Board is proposing a dividend in respect of 2023 of 4.0 pence per share (£52 million) reflecting the Group's strong capital position following the sale of the brokered commercial business and good performance in Home, Commercial and Rescue. While the Board is confident in the actions taken in Motor, it recognises that the period over which to judge the sustainability of Motor's capital generation has been short and consequently this dividend should not be regarded as a resumption of regular dividends. The Board will update on any changes to its dividend policy, alongside the conditions it has previously set to consider restarting regular dividends, in July to coincide with its planned strategy update.

Outlook

We have taken the right actions during 2023 to improve written margins in Motor and expect this to improve Motor performance in 2024.

The Group believes there is significant opportunity to create further value and is targeting a net insurance margin, normalised for weather, of 13% in 2026.

Adam Winslow
Chief Executive Officer

Jon Greenwood
Acting Chief Executive Officer

Outgoing Acting CEO review

> I am confident that the actions we have taken this year will strengthen the business and leave us well placed to improve earnings going forward. As I hand over to our new CEO, Adam Winslow, I know that we are in good hands and well equipped to build on the changes we have made.

After a challenging period, the Group has now turned a corner. We have delivered against our three key objectives, having improved our Motor margins, maintained the good performance of our other businesses and restored the resilience of our balance sheet.

First, in Motor we have taken significant pricing and underwriting action, prioritising margin improvement over volume. We believe that for the majority of the second half of 2023 we have been underwriting profitably, consistent with our ambition of a net insurance margin of above 10%.

Encouragingly, we began to see the signs of an improvement in our current year net insurance claims ratio in the second half of 2023.

Secondly, our other businesses delivered a good performance with an overall net insurance margin of 12.2% and operating profit of £130 million. This shows the benefits of the strong positions the Group holds in Home, Rescue and Commercial Direct.

Finally, the sale of the Group's brokered commercial business has restored the resilience of the Group's balance sheet, crystallising an attractive valuation whilst also focusing the Group's strategy on retail personal and small business insurance. With a solvency capital ratio post-dividend of 197% at year-end, above the top end of the Group's risk appetite range of 140% to 180%, we exit the year in a strong capital position.

Whilst these priorities have been the key focus for the Group during 2023, we have also commenced our partnership with Motability, bringing further scale to our operations, and continued to deliver other improvements across the business. In 2023 we expanded our accident repair network, launched the Green Flag patrol service and four new Motor products, and continued to make it easier for customers to engage with us through digital journeys.

Overall, whilst it will take time for the actions we have taken to fully come through in our reported figures, I am confident the Group has taken the right actions and together with the new operational improvement plan, can improve performance going forward.

2023 results

The 2023 results do not reflect the profitability of the business we believe is being written by the Group today. Whilst we have taken action to return Motor to underwriting profitability, the Group's financial result in 2023 reflects the below target margin business written in Motor during 2022 and the first half of 2023. This resulted in an operating loss of £319.6 million in Motor, which more than offset a good performance across the rest of the Group where operating profit was £130.1 million.

Overall, this delivered an ongoing operating loss of £189.5 million, compared to a £6.4 million loss in 2022. The net gain from the sale of the Group's brokered commercial business contributed to a profit before tax of £277.4 million, up from a loss before tax of £301.8 million in 2022.

Improved our written margins in Motor

We have taken a range of actions in Motor to improve our performance and increase our written margins back to target levels. These actions have delivered a material increase in our average premiums, mitigating the impacts of elevated inflation while also reducing our risk exposure.

There are four key areas we have focused on.

1. Pricing – we have applied significant rate increases in 2023 and improved renewal discounting controls, which have delivered a 37% increase in our average written premiums in Q4 2023 compared with the same period in 2022. Average earned premiums increased by 15% between the first and second half of 2023. Pricing ahead of claims inflation has enabled us to improve written profitability and it is encouraging to see these pricing actions begin to benefit our earned margins.
2. Underwriting and claims – we have made good progress across a range of actions on our underwriting footprint. We made considerable improvements to our pricing and trading capabilities, tightened our fraud controls and took targeted actions on underperforming segments. We launched a new retail price optimisation model in the price comparison website ("**PCW**") channel and, in claims, we continued to expand our own vehicle repair network, having acquired our 23rd DLG Auto Services centre.
3. Product – in order to meet the needs of a broader set of customers, we launched Direct Line Essentials this year, which has driven an increase in conversion. Darwin, which launched in 2019, passed the 250,000 policy milestone in 2023 and rolled out two new products, Darwin Gold and Darwin Platinum.
4. Team – we have brought in experience from across the market into our pricing and underwriting teams, through several key hires in leadership positions.

As a result of these actions, we believe we have been writing business consistent with a net insurance margin in line with our ambition for the majority of the second half of 2023. Whilst it will take time for these actions to fully earn through into reported numbers, we are encouraged by our performance in the second half of 2023 where we have seen the current year claims ratio in Motor improve by around 6 percentage points compared with the first half of 2023.

Motor current-year attritional net insurance claims ratio

	H1	H2	Full year
2023	**89.8 %**	**84.0 %**	**86.7 %**
2022	75.6 %	84.3 %	79.9 %

Commenced new Motability partnership

After nearly two years of preparation, we welcomed over 700,000 Motability customers at the start of September. The partnership is forecast to deliver over £800 million of gross premium annually and allows for six-monthly repricing to mitigate the risk of claims inflation, whilst being capital light as it is 80% reinsured

This is an important commercial partnership for the Group and demonstrates how we can utilise our claims operations as a wider service proposition. The fleet of modern vehicles provides significant scale benefits as well as repair insight across our claims network. We are also pleased to have welcomed a large team of specialist call handlers to support Motability's customers.

This partnership is expected to deliver good margins for the Group.

Non-Motor businesses delivered resilient performance

Outside of Motor, the Group delivered an ongoing net insurance margin of 12.2% whilst delivering gross written premium and associated fees growth of 4.7%.

Resilient performance in Home

In Home, our focus was on maintaining margins and we achieved this whilst also growing share of new business in the PCW channel. Following a challenging market backdrop in 2022, the market applied considerable rate increases in 2023 and this helped improve our competitiveness, driving 42% growth in new business sales while retention remained strong.

Overall we delivered 6.4% gross written premium growth in 2023 and a net insurance margin of 10.0%. There were several named weather events across the year and our Home claims team helped over 3,000 customers. Despite the high frequency of events, our estimate for event weather of £25 million is below our 2023 assumption for normal event weather of £54 million.

Continued growth in Commercial Direct

Separate from the brokered commercial business, the sale of which we announced in September, Commercial Direct sells SME cover under the Direct Line for Business and Churchill brands, both direct to customer and through PCWs. Landlord insurance is the largest product by premium and policy count, followed by Van. Commercial continued to perform strongly, with premium growth of 10.1% and continued strong margins.

Gross written premium growth was achieved across all product lines, while policy count growth in Direct Line Landlord and SME was offset by reductions in Van, where we continued to increase prices in response to high claims inflation.

The largest growth area was Landlord, which accounts for around half of Direct Line branded Commercial premiums due to our differentiated rent guarantee proposition. We now provide landlord cover for an estimated 370,000 properties across the UK. Our Churchill brand continued to grow in the PCW channel, delivering 48% gross written premium growth over the last three years.

The net insurance margin was 13.1% during 2023 (2022: minus 2.7%), with strong margins in Direct Line Landlord and benign weather conditions more than offsetting the impact of heightened inflation within Van.

These Commercial results exclude the brokered commercial business that was sold in the second half of 2023 and is now reported outside of ongoing operations.

Strong margins in Rescue and other personal lines

Rescue and other personal lines continued to deliver strong margins with a net insurance margin of 15.6% and £48.0 million of operating profit.

In Green Flag, we focused on improving pricing and customer journeys which delivered higher average premiums with minimal impact on sales and retention. We also expanded our Green Flag patrol service across the North of the UK, attending to over 7,000 rescues. The patrol service of 20 vans is helping customers get back on the road faster, including through the sale of tyres and batteries at the roadside, and has delivered strong Net Promoter Scores, which is why we have an ambition to get to 130 vehicles. Green Flag was once again ranked as the top rescue provider in the UK by the UK Institute of Customer Service.

Across our other personal lines products, good results in Travel and Pet offset weather-related losses in our mid- to high-net worth business, UK Select.

Expanding our products and servicing options for our customers

We have also continued to focus on providing customers with greater choice of products and channels to interact with us.

In Motor, we have expanded our Motor product options. Alongside our two new Essentials products we further expanded our own brand portfolio through the acquisition of By Miles, a digitally native insurer, that offers 'pay as you drive' insurance. This not only increases choice for customers, it provides the Group with new data and digital capabilities including direct integration with newer vehicles.

Furthermore, we are creating easy, digital first journeys to enable customers to interact with us seamlessly from sales through to claims. In 2020 we first offered customers a simple way to register motor claims online and in 2023 we took a step forward with the launch of our new Motor Claims Hub, a fully integrated claims journey. We're initially offering customers the ability to register a single vehicle or third party claim online and we plan to extend this service to include online repair booking and claim tracking.

Past business reviews

As previously announced, we are conducting two unconnected past business reviews: the first regarding Motor total loss claims and the second about the implementation of the FCA's Pricing Practices Review ("PPR") regulations. These reviews are progressing well and we aim to complete both reviews in mid 2024. Following extensive review and consultation with the FCA, we have provided for the cost of the total remediation of £150 million, which we consider to be final. A breakdown is set out in the CFO review.

In response to these reviews we have carried out extensive read across activity and have taken steps to improve the control environment.

Sale of Brokered Commercial business

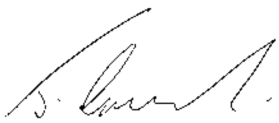
In September we announced the sale of the brokered commercial insurance business. The sale crystallised an attractive valuation for a business we have turned around over the last ten years, but one that ultimately had a different trading model and operates in a different part of the UK insurance market to the rest of the Group.

Following the sale, our strategy is focused on retail personal lines and small business commercial customers. The proceeds from the sale and the release of capital increased the Group's solvency capital ratio by 46 percentage points.

A positive start to 2024 trading

Trading has been positive in the first two months of the year with premium growth across all segments. Motor premiums grew by 21.4%, with a modest reduction in policy count. In Home, own brand policy count growth was offset by lower partnership policies, with premiums increasing 14.2% year on year. There were some weather event claims in the early stages of the year, with a current estimate of £22 million in Home compared to a full year assumption of £54 million.

	Gross written premium and associated fees		In-force policies	
	Feb YTD £m	Variance to PY %	29 Feb 2024 '000s	Change to Dec 2023
Motor	262.8	21.4 %	4,113	(1.6 %)
Home	93.3	14.2 %	2,445	0.0 %
Rescue and other personal lines	40.3	0.5 %	2,110	(2.9 %)
Of which: Rescue	19.8	2.8 %	1,924	(2.0 %)
Commercial	47.0	19.1 %	645	0.0 %
Total ongoing	**443.4**	**17.4 %**	**9,313**	**(1.4 %)**



Jon Greenwood
Outgoing Acting Chief Executive Officer