2 August 2022

DIRECT LINE INSURANCE GROUP PLC
HALF YEAR REPORT 2022

PENNY JAMES, CEO OF DIRECT LINE GROUP, COMMENTED

"As we announced in our 18 July trading update, uniquely complex motor market conditions during the first half, due to significant regulatory changes, heightened claims inflation and macroeconomic uncertainty, have challenged our short-term profitability.

"However, the longer-term fundamentals of the business remain strong. Through pricing action, steps taken in our garage repair network and through deployment of enhanced pricing capability, we have now returned to writing at our target margins based on latest claims assumptions.

"We are pleased that all of our other businesses have continued to perform in line with expectations. We remain ahead of our long-term return on tangible equity target despite the challenges, demonstrating the benefit of the Group's diversification. We are announcing an interim dividend in line with 2021 and are confident in the sustainability of our regular dividends as we look ahead to the full year and beyond."

Results summary

	H1 2022 £m	H1 2021 £m	Change
Adjusted gross written premium[1]	**1,523.1**	1,556.5	(2.1%)
Of which: direct own brands[2]	**1,017.6**	1,063.7	(4.3%)
Operating profit[1]	**195.5**	369.9	(47.1%)
Combined operating ratio[1,3]	**96.5%**	84.2%	(12.3pts)
Profit before tax	**178.1**	261.3	(31.8%)
Return on tangible equity annualised[1]	**17.8%**	30.1%	(12.3pts)
Dividend per share – interim (pence)[4]	**7.6**	7.6	0.0%
	30 Jun 2022	31 Dec 2021	Change
In-force policies (thousands)[5]	**13,231**	14,565	(9.2%)
Of which: direct own brands[2] (thousands)	**7,417**	7,529	(1.5%)
Solvency capital ratio post dividends and share buyback[6]	**152%**	176%	(24pts)
Solvency capital ratio (as above) / adjusted solvency capital ratio[1,7]	**152%**	160%	(8pts)

Financial summary

Group gross written premium of £1,523.1 million was 2.1% lower than H1 2021 as we navigated challenging market conditions and the implementation of the regulations coming out of the FCA pricing practices review in Motor and Home. Commercial continued to see the benefits of its transformation and delivered double-digit growth.

The UK motor market experienced significant levels of severity inflation in H1 2022. Market premium inflation has continued to lag behind the increases in claims inflation and we now estimate overall motor claims severity inflation for 2022 to be around 10%. As a result, our Motor current-year attritional loss ratio increased to 86.4%. We have taken action to mitigate the short-term impact of this and we have now returned to writing at our target margins based on latest claims assumptions.

Our other business lines are performing largely in line with expectations, demonstrating the benefit of the Group's diversified business model. Alongside higher weather costs and lower prior-year reserve releases, this delivered an operating profit of £195.5 million for the half year and a combined operating ratio of 96.5%. Operating profit was £174.4 million lower than H1 2021, a period which experienced below normal levels of claims frequency due to Covid-19 lockdowns.

We have maintained an interim dividend of 7.6 pence per share. Our solvency ratio after dividends was 152%, which is within our risk appetite range of 140% to 180%.

As we announced earlier this month, we have revised our 2022 combined operating ratio target range, normalised for weather, to 96% to 98%. The actions we have taken to restore margins, including increasing prices and deploying new pricing capability, mean we expect our 2023 combined operating ratio to improve to around 95% and we reiterate our medium-term combined operating ratio target range of 93% to 95%.

Strategic and operational progress

Notwithstanding the short-term impact of inflation, we continue to develop the capabilities required to deliver customer propositions for the future.

In Motor we have delivered significant pricing capability during H1 with the launch of our new risk pricing models which are materially more advanced than anything we have had before and critical in navigating a changing market. The early impact of these changes is encouraging with an estimated 5 to 7 percentage point improvement in our written loss ratios. Together with other pricing actions, this has helped us return to writing at our target margins based on latest claims assumptions and looking forward gives us the tools to enhance our market competitiveness.

This improvement in competitiveness will be supported by our latest Direct Line superhero marketing campaign, which underlines our strong customer proposition, as well as a pipeline of compelling brand marketing scheduled for H2.

We continue to increase the breadth of our propositions and we made good progress towards our aim to be the insurer of choice for electric vehicle customers. Our Direct Line electric vehicle proposition has delivered strong conversion and was expanded to include Churchill customers in Q2.

With a material increase in customer adoption of digital journeys, we are continuing to make good progress in our aim to deliver a digital first experience for our customers. Our digital capabilities have been rated as industry leading by consumers in a recent benchmarking survey, and in Motor we saw more customers using their online account than calling us. We continue to target greater customer adoption as part of our focus on improving efficiency and reducing costs while serving customers in their channel of choice.

In Commercial, our transformation has continued to help deliver double-digit growth alongside improving margins across both its two main businesses, NIG and Commercial direct own brands. Commercial direct continues to grow the direct to SME market, with 60% gross written premium growth during the first half in Churchill's business brand. NIG benefited from improved pricing sophistication and growth on its award-winning electronic trading platform.

The transformation of Green Flag Rescue has continued and in the first half it expanded its range of products and services with the launch of a vehicle check service and the option for customers to buy a range of motor accessories from the new Green Flag shop. As it continues to disrupt the rescue market we were delighted that it was recently ranked the top Rescue brand and second best service brand for customer service in the UK[8].

As part of our work to ensure we deploy our capital as efficiently as possible we are also prioritising high growth, high return partnership opportunities. We look forward to welcoming over 640,000 Motability customers, expected in Q3 2023, in a capital-efficient structure[9], we have renewed our Home NatWest partnership serving half a million customers and have taken the decision to reduce our exposure to packaged bank accounts where they do not meet target levels of return and are no longer required for operational scale.

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Notes:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.
2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary for definitions.
4. The Group's dividend policy includes an expectation that generally one-third of the regular annual dividend will be paid in the third quarter as an interim dividend and two-thirds will be paid as a final dividend in the second quarter of the following year.
5. The reduction in in-force policies principally relates to the removal of travel insurance cover from a partner's bank account proposition.
6. Estimates based on the Group's Solvency II partial internal model.
7. Adjusted solvency capital ratio as at 31 December 2021 excluded £250 million Tier 2 debt which was redeemed on 27 April 2022. See appendix A – Alternative performance measures for reconciliation to financial statement line items.
8. The UK Customer Satisfaction Index is created by the Institute of Customer Service and is based on 45,000 responses from over 10,000 people.
9. As reported previously, we expect 80% to be reinsured.

Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "will" or "would" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets which are contained in this document including with respect to; return on tangible equity, solvency capital ratio, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control and/or they rely on assumptions that may or may not transpire to be correct. Forward-looking statements are not guaranteeing future performance.

The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group’s customers and their behaviours and expectations;
- the Trade and Cooperation Agreement between the UK and the European Union ("**EU**") regarding the terms, following the end of the Brexit transition period, of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA pricing practices report and any rules and regulations arising as a result of that report and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the Russian invasion of Ukraine;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of, principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and of changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

Financial summary

	H1 2022 £m	H1 2021 £m	Change
Adjusted gross written premium[1]	**1,523.1**	1,556.5	(2.1%)
Of which: direct own brands[2]	**1,017.6**	1,063.7	(4.3%)
Net earned premium	**1,472.0**	1,455.6	1.1%
Underwriting profit	**51.7**	229.3	(77.5%)
Instalment and other operating income	**71.2**	72.2	(1.4%)
Investment return	**72.6**	68.4	6.1%
Operating profit	**195.5**	369.9	(47.1%)
Restructuring and one-off costs	**(4.0)**	(91.5)	95.6%
Operating profit after restructuring and one-off costs	**191.5**	278.4	(31.2%)
Finance costs	**(13.4)**	(17.1)	21.6%
Profit before tax	**178.1**	261.3	(31.8%)
Tax	**(32.4)**	(57.5)	43.7%
Profit after tax	**145.7**	203.8	(28.5%)
Key metrics			
Current-year attritional loss ratio[1,3]	**72.6%**	62.3%	(10.3pts)
Loss ratio[1,3]	**65.1%**	52.0%	(13.1pts)
Commission ratio[1,3]	**7.1%**	7.3%	0.2pts
Expense ratio[1,3]	**24.3%**	24.9%	0.6pts
Combined operating ratio[1,3]	**96.5%**	84.2%	(12.3pts)
Investment income yield annualised[1]	**2.1%**	2.0%	0.1pts
Net investment income yield annualised[1]	**2.0%**	1.7%	0.3pts
Investment return yield annualised[1]	**2.6%**	2.3%	0.3pts
Basic earnings per share (pence)	**10.5**	14.5	(27.6%)
Diluted earnings per share (pence)	**10.3**	14.3	(28.0%)
Return on tangible equity annualised[1]	**17.8%**	30.1%	(12.3pts)
Return on equity annualised[1]	**11.4%**	14.7%	(3.3pts)
Dividend per share – interim (pence)	**7.6**	7.6	0.0%
Share buyback actioned	**50.1**	50.3	n/a

	30 Jun 2022	31 Dec 2021	Change
In-force policies (thousands)[4]	**13,231**	14,565	(9.2%)
Of which: direct own brands[2] (thousands)	**7,417**	7,529	(1.5%)
Net asset value per share (pence)	**174.4**	193.6	(9.9%)
Tangible net asset value per share (pence)	**110.3**	131.2	(15.9%)
Solvency capital ratio post dividend and share buyback[5]	**152%**	176%	(24pts)
Solvency capital ratio (as above) / adjusted solvency capital ratio[1,6]	**152%**	160%	(8pts)

Notes:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.
2. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin and Privilege brands, Rescue policies under the Green Flag brand and Commercial under the Direct Line for Business and Churchill brands.
3. A reduction in the ratio represents an improvement as a proportion of net earned premium, while an increase in the ratio represents a deterioration. See glossary for definitions.
4. The reduction in in-force policies principally relates to the removal of travel insurance cover from a partner's bank account proposition.
5. Estimates based on the Group's Solvency II partial internal model.
6. Adjusted solvency capital ratio as at 31 December 2021 excluded £250 million Tier 2 debt which was redeemed on 27 April 2022. See appendix A – Alternative performance measures for reconciliation to financial statement line items.

CEO REVIEW

The market has experienced a unique combination of factors during the first half including regulatory reform, elevated claims inflation, significant supply chain disruption and macroeconomic uncertainty.

Whilst this impacted our Motor profitability in the short-term, we have already taken action to get back on track, through initiatives in our repair network and through pricing, and so are now writing at our target margins, based on our latest claims assumptions. We are also pushing harder on costs and enhancing balance sheet resilience.

Trading through these tough economic times demonstrates the importance of our diversified business model. Outside of Motor our other businesses performed largely in line with expectations and we continue to focus on allocating capital into opportunities with the best longer-term returns.

We have made good progress with the deployment of significant new pricing capability in Motor and have increased customer uptake through digital channels. As a result, we believe the earnings power of the Group remains strong and we continue to have confidence in the sustainability of our dividend.

Strategy update

In the last few years, we have set up core business lines with the technology and capability they need to thrive. With the implementation of the FCA pricing practices regulations and the removal of pricing differentials between new business and renewal customers, appropriately pricing for risk has become more essential than ever.

In Motor, we put through two major pricing model updates in the first half, which, through expanded use of third-party data and machine learning pricing techniques, enable us to target profitable segments of business more effectively. The early impact of these changes is encouraging, with an estimated 5 to 7 percentage point improvement in our written loss ratios, based on our latest claims assumptions.

In such a competitive market this is a material improvement, which against the current market backdrop we have invested into margin, but we also have the option to invest into competitiveness as and when the market cycle turns.

Our transformation over the last few years has also been centred on the customer, enabling us to engage with them when and how they wish, through efficient digital customer journeys. During 2022, we have continued to drive customer uptake of digital channels. In Motor, online amendments have doubled through the first half and for the first time in Q2 we had more customers self-serve through their online account than calling us. We are delighted that in a recent digital benchmarking survey, Churchill has been ranked as the leading insurance brand for digital service and claims capability.

Our strengthening of our digital offering is not only critical to customer engagement and retention, it is also a core element of our journey to being a more efficient business, as demonstrated by our target of reducing our controllable expenses by 15% between 2021 and 2023. We made good progress in the first half of 2022, reducing our absolute cost base despite the inflationary environment. We continue to target an expense ratio of 20% although, as previously announced, it is unlikely this will be achieved in 2023.

As part of our work to ensure we deploy our capital as efficiently as possible we are also prioritising high growth, high return partnership opportunities. We look forward to welcoming over 640,000 Motability customers, expected in Q3 2023, in its capital-efficient structure, we have renewed our Home NatWest partnership servicing half a million customers and we have taken the decision to reduce our exposure to packaged bank accounts where they do not meet our target levels of return and are no longer required for operational scale.

Business Update

Motor

During the first half Motor claims inflation increased above the levels assumed in pricing following a spike in used car prices that was exacerbated by supply chain disruption. With claims also taking longer to settle, the visibility of the impact of these trends has been slower to emerge particularly in relation to third party claims costs. Furthermore, the interpretation of premium trends has been complicated by the effects of the pricing reforms. Taking these factors together increased the Motor current-year attritional loss ratio to 86.4%.

Our retention rates stepped up during H1 as we implemented the FCA Pricing Practices regulatory changes. This enabled us to hold our policy count broadly stable across the first half, despite a challenging market backdrop and a new business market some 15% to 20% smaller.

We have increased new business prices by 15% across the first half and we have now returned to writing at our target margins based on latest claims expectations. Whilst the market has increased new business prices progressively through the second quarter and into July, we continue to believe the market has not adequately priced for current claims inflation. We believe we are well positioned as and when the market turns, albeit our pricing actions may reduce our conversion in the short term.

Home, Commercial and Rescue

In Home, our focus in H1 was on preserving value as we navigated the implementation of the FCA Pricing Practices regulatory changes and we continue to expect our 2022 combined operating ratio to be in the low 90s. Similar to Motor the market saw a smaller new business market by around 15%, with retention increasing by 2 percentage points.

Against this backdrop, our own brand gross written premium reduced around 8% during H1 due to lower new business sales, which was broadly in line with the market. We intend to continue to maintain discipline, whilst targeting the brand, channel and customer segments where we can increase our new business competitiveness.

Commercial continued its excellent progress, delivering double-digit growth in both direct own brands and in NIG during the first half. This reflected the work over several years to transform its pricing capability and build customer service, as well as supportive market conditions.

As Green Flag Rescue continues its transformation, we have rolled out our new policy system and expanded its product set as it looks to diversify beyond its core roadside rescue product. Rescue has shown itself to be a high return business and we see significant growth opportunities in the future.

UK weather

During February 2022, the UK experienced three significant storms: Dudley, Eunice and Franklin. To date, we have already helped over 10,000 customers across Home and Commercial and estimate claims in connection with these storms to be around £36 million, consistent with our annual weather budget assumption of £73 million for 2022.

Investment portfolio

Whilst our investment portfolio has no direct exposure to Russia or Ukraine, the war's impact on the global economy through heightened uncertainty and inflationary pressures has impacted our investment portfolio in two main ways. First, we have seen a reduction in the value of our mark-to-market assets due to credit spread widening and increased interest rates. Secondly, higher interest rates have improved the outlook for our net investment income yield. Whilst our outlook for 2022 remains at 1.7%, we have increased our expectation for 2023 to around 2.2%. These expectations include the impact of reducing longer duration credit exposure as part of capital resilience actions.

Dividend and capital management

Today the Board has announced an interim dividend of 7.6 pence per share, in line with 2021. The Group believes its balance sheet and outlook for capital generation in the medium term remains strong due to pricing and operational improvements arising from the Group's transformation programme.

In the first half of 2022, the solvency capital ratio has reduced by an estimated 7 percentage points due to the mark-to-market effect of widening credit spreads on the Group's investment portfolio, albeit this is expected to pull to par over time, subject to any actions to reduce credit exposure. Based on this and other movements in the first half of the year and taking into account the interim dividend, the Group's solvency capital ratio at 30 June was 152% (31 December 2021, 160%).

The Board understands the importance of the regular dividend to shareholders and notes that the current solvency ratio is within the risk appetite range of 140% to 180%. The Group is confident in the sustainability of its regular dividends and is continuing to take action to both improve returns and further increase resilience given macroeconomic uncertainty, including reducing credit exposure and, as previously disclosed, is considering the use of strategic reinsurance.

In the light of the current market environment, the Board has decided not to launch the second £50 million tranche of the £100 million share buyback programme announced earlier in the year.

Setting Science-Based Targets

As a supporter of the Race to Zero the Group is committed to a target of reducing emissions based on a 1.5 degree pathway. We are pleased to have finalised our submission to the Science-Based Targets initiative ("**SBTi**") and we are awaiting approval of our targets and hope to report later in the year on progress.

Outlook

As previously announced, we now expect the full year 2022 combined operating ratio to be in the range of 96% to 98%, normalised for weather. Following the trading actions already taken and in the light of the continued focus on cost control, we expect a combined operating ratio of around 95% for 2023 and to return to having a target range of 93% to 95% over the medium term. Both the 2023 and medium-term targets are normalised for weather.

We reiterate our ongoing target of achieving at least a 15% return on tangible equity each year.

For all the short-term operational and economic challenges, the business fundamentals remain strong, our strategy remains the right one and our critical priorities are clear. We step forward with confidence.

PENNY JAMES

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER REVIEW

Performance

Operating profit[1]

	H1 2022 £m	H1 2021 £m
Underwriting profit	**51.7**	229.3
Instalment and other operating income	**71.2**	72.2
Investment return	**72.6**	68.4
Operating profit[1]	**195.5**	369.9
Of which:		
Current-year operating profit[1]	**47.6**	217.0
Prior-year reserve releases	**147.9**	152.9

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

The Group's financial performance in the first half of 2022 saw two key challenges. First, the impact of significantly heightened level of claims severity inflation on Motor, and secondly, the impact of the macroeconomic conditions on the mark-to-market value of the investment portfolio. Outside of this, the Group has performed broadly in line with our expectations.

Underwriting profit reduced by £178 million to £52 million in H1 2022 compared to H1 2021 and was driven by a £142 million reduction in current-year profitability in Motor, alongside higher weather costs. A significant amount of this change was due to the non-repeat of lower accident frequency arising from Covid-19 related factors (see below) alongside heightened claims severity inflation. Prior-year reserve releases were slightly lower in H1 2022 compared to H1 2021.

In Home and Commercial we incurred approximately £36 million of weather costs in Q1 relating to storms Dudley, Eunice and Franklin.

Prior-year reserve releases reduced from £153 million in H1 2021 to £148 million in H1 2022, with the reduction driven by lower Motor releases partially offset by higher releases in the other segments. The contribution from prior-year reserve releases has remained significant, despite inflation and the adverse development on specific bodily injury claims. Overall, prior-year reserve releases were in line with expectations with no deterioration in any of our categories, reflecting what we believe to be our prudent reserving position.

Investment return increased by £4 million to £73 million in H1 2022, primarily reflecting reduced losses arising from hedging. Investment income remained broadly flat.

Impact of Covid-19

During H1 2021 we saw claims frequency remain below pre-pandemic levels as a result of Covid-19 lockdowns. This was a driver behind a current-year loss ratio in Motor of 66.9% in H1 2021 before increasing to 79% in H2 2021 as claims frequency increased towards more normal levels, albeit lower than pre-pandemic levels. With no lockdowns in H1 2022, conditions largely normalised.

In-force policies and gross written premium

In-force policies (thousands)

At	**30 Jun 2022**	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
Direct own brands	**3,846**	3,854	3,869	3,858	3,867
Partnerships	**98**	100	102	104	108
Motor	**3,944**	3,954	3,971	3,962	3,975
Direct own brands	**1,792**	1,825	1,879	1,890	1,880
Partnerships	**779**	783	788	792	797
Home	**2,571**	2,608	2,667	2,682	2,677
Rescue	**3,391**	3,406	3,417	3,295	3,346
Travel[1]	**2,253**	2,254	3,445	3,412	3,424
Pet	**133**	135	138	140	141
Other personal lines	**55**	56	56	57	58
Rescue and other personal lines	**5,832**	5,851	7,056	6,904	6,969
Of which: Green Flag Direct	**1,156**	1,167	1,179	1,172	1,134
Direct own brands	**623**	613	602	593	584
NIG and other	**261**	265	269	269	266
Commercial	**884**	878	871	862	850
Total in-force policies[1]	**13,231**	13,291	14,565	14,410	14,471
Of which: direct own brands	**7,417**	7,459	7,529	7,513	7,465

Note:

1. The reduction in in-force policies principally relates to the removal of travel insurance cover from a partner's bank account proposition.

Direct own brands in-force policies fell 1.5% across the first half of 2022 as growth across Commercial was offset by reductions across Motor, Home and Green Flag Rescue. At a Group level, in-force polices reduced by 9.2% over the same period, largely due to lower volumes across other Rescue and other personal lines following the removal of travel insurance cover from a partner's bank account proposition.

Adjusted gross written premium[1]

	Q2 2022 £m	Q2 2021 £m	H1 2022 £m	H1 2021 £m
Direct own brands	**350.3**	376.6	**688.8**	733.3
Partnerships	**9.2**	11.7	**18.0**	22.3
Motor	**359.5**	388.3	**706.8**	755.6
Direct own brands	**90.3**	98.7	**182.1**	198.6
Partnerships	**33.7**	39.3	**68.3**	79.7
Home	**124.0**	138.0	**250.4**	278.3
Rescue	**40.4**	43.3	**77.6**	81.8
Travel	**29.4**	23.9	**52.0**	47.6
Pet	**18.1**	17.6	**35.7**	35.1
Other personal lines	**11.5**	11.0	**22.8**	22.0
Rescue and other personal lines	**99.4**	95.8	**188.1**	186.5
Of which: Green Flag direct	**21.2**	21.5	**40.5**	40.9
Direct own brands	**53.3**	45.6	**106.2**	90.9
NIG and other	**152.6**	136.5	**271.6**	245.2
Commercial	**205.9**	182.1	**377.8**	336.1
Total adjusted gross written premium	**788.8**	804.2	**1,523.1**	1,556.5
Of which: direct own brands	**515.1**	542.4	**1,017.6**	1,063.7

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Adjusted gross written premium[1] reduced by 2.1% compared to H1 2021 with lower direct own brands premiums partially offset by strong growth in Commercial NIG. Direct own brands adjusted gross written premium[1] were 4.3% lower than H1 2021 due to reductions across Motor and Home, offset by strong growth in Commercial which grew premiums by 16.8%.

Motor

The UK motor market during H1 2022 was impacted by two key factors: firstly, the implementation of the FCA pricing practices regulatory changes and, secondly, heightened claims severity inflation driven by elevated used car prices and supply chain disruption.

Whilst market premiums adjusted broadly in line with our assumptions for the implementation of the FCA pricing practices regulation, we believe the market as a whole has not sufficiently increased premiums to cover higher claims severity inflation.

Against this backdrop, in-force policies reduced by 0.8% to 3.9 million compared to H1 2021, with own brand in-force policies down by 0.5% at 3.8 million. Gross written premium reduced by 6.5% to £706.8 million in the same period, driven by lower volumes and lower average premium. Motor own brands average premium[2] reduced by 4.2% compared to H1 2021. Rate increases to cover claims inflation were more than offset by reductions in premiums to reflect structurally lower claims frequency and a change in risk mix towards lower average premium renewal customers.

Home

The impact of the FCA pricing practices regulatory changes was more material for the home market than for motor. Our approach through the first half of 2022 was to focus on seeking to maintain target margins as the market resets.

At the start of H1 market premiums moved broadly in line with our assumptions as they adjusted to the new regulatory environment. Across the rest of H1 2022, market premiums remained relatively stable against an inflationary backdrop, with the price comparison website channel being increasingly competitive.

As a result of these trends, we saw retention increase during H1 2022 and our new business volumes reduce. Overall this led to in-force policies for Home's own brands reducing by 4.7% across the half to 1.8 million policies.

Own brands gross written premium reduced by 8.3%, broadly in line with the market, predominantly driven by lower new business volumes. Overall gross written premium reduced by 10.0%. Partnership volumes reduced by 2.3%; Prudential and Sainsbury's partnerships are closed to new business and continued to run off in line with expectations.

Own brands average premium[3] increased by 1.2% compared to H1 2021, as we focused on maintaining pricing discipline during inflationary conditions.

Commercial

During H1 Commercial continued to see the benefits of its transformation, alongside supportive market conditions. It delivered policy count and double-digit gross written premium growth across both its broker business, NIG, and direct own brands, Direct Line for Business and Churchill's business brand. Commercial achieved rate increases of around 9% during H1, ahead of claims inflation of 7.5%.

Overall, Commercial in-force policies of 0.9 million increased by 4.0% across the first half of 2022, and gross written premium grew by 12.4% to £377.8 million.

Commercial direct own brands grew in-force policies by 6.7% and gross written premium increased by 16.8% to £106.2 million, with increases across all Commercial direct product lines. We continued to see the benefits of our technology transformation as we seek to grow the direct to SME market across both the Direct Line for Business platform and Commercial's Churchill brand.

NIG and other in-force policy numbers were 1.9% lower than in H1 2021 whilst gross written premium grew by 10.8% to £271.6 million when compared to H1 2021. This reflected growth across all major categories except Van as the book continued to benefit from improvements arising from the re-platforming of its products, improved pricing sophistication and growth on its award-winning electronic trading platform.

Rescue

Rescue has moved to the next stage in its transformation, with expanding customer propositions and a new policy platform rolled out in Q1 2022.

Whilst the new systems bed in, Green Flag Rescue's adjusted gross written premium[1] remained broadly level compared to H1 2021, with in-force policies increasing by 1.9% across the same period.

Other Rescue lines, which include the linked channel, where cover can be purchased with a Motor policy, and Rescue partnerships, saw in-force policies decrease by 2.4% and gross written premium reduce by 8.4%.

Overall Rescue in-force policies increased by 1.3% to 3.4 million whilst gross written premium decreased by 5.1% to £77.6 million compared to H1 2021.

Following a change in the operating model, adjusted gross written premium includes service fees which are recognised in other income. At H1 2022 the amount of service income is £1.8 million.

Other personal lines

Other personal lines (comprising Travel, Pet and other) saw differing trends between policy count and premiums during H1 2022. In-force policy count reduced by 32.6% principally due to the removal of travel insurance cover from a partner's bank account proposition. This drove a step down in policy count in Q1, but had limited impact on gross written premium or Group profitability.

Gross written premiums across Other personal lines increased by 5.5% to £110.5 million, compared with H1 2021 with continued rebound in the travel market, alongside growth in Pet and our mid- to high-net worth business, Direct Line Select.

Notes:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.
2. Average incepted written premium excluding IPT for Motor direct own brands for the period ending 30 June 2022.
3. Average incepted written premium excluding IPT for Home own brands for the period ending 30 June 2022.

Underwriting profit and combined operating ratio[1]

	H1 2022	H1 2021
Underwriting profit (£ million)	**51.7**	229.3
Loss ratio	**65.1%**	52.0%
Commission ratio	**7.1%**	7.3%
Expense ratio	**24.3%**	24.9%
Combined operating ratio	**96.5%**	84.2%

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Overall underwriting profit decreased to £51.7 million (H1 2021: £229.3 million) with a deterioration in the combined operating ratio to 96.5% (H1 2021: 84.2%).

The loss ratio increased to 65.1% (H1 2021: 52.0%) driven predominantly by two key factors in Motor. First, 2021 benefited from below normal level of claims frequency due to Covid-19 lockdowns, with claims frequency in the first half of 2022 close to the levels assumed in pricing. Secondly, claims severity inflation during H1 2022 has accelerated above the levels assumed in our pricing due principally to elevated used car prices and supply chain disruption. Outside of Motor an improved loss ratio in Commercial was offset by a higher loss ratio in Home.

The commission ratio remained broadly level between H1 2022 and H1 2021.

The expense ratio reduced by 0.6 percentage points to 24.3%, following progress in the Group's cost transformation leading to lower operating expenses. Whilst the first half saw general inflationary pressures, alongside increases in amortisation and depreciation, reductions in controllable costs more than offset these factors, meaning that operating expenses before restructuring and one-off costs reduced by £4.6 million year on year for the first half of 2022 compared with the same period in 2021.

Ratio analysis by division

	Notes	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
For the period ended 30 June 2022						
Net earned premium	4	**713.2**	**267.6**	**190.5**	**300.7**	**1,472.0**
Net insurance claims	4	**542.2**	**152.8**	**115.9**	**146.9**	**957.8**
Prior-year reserve releases	22	**74.0**	**20.9**	**16.6**	**36.4**	**147.9**
Major weather events		**n/a**	**(21.1)**	**n/a**	**(15.1)**	**(36.2)**
Attritional net insurance claims		**616.2**	**152.6**	**132.5**	**168.2**	**1,069.5**
Loss ratio – current-year attritional		**86.4%**	**57.0%**	**69.6%**	**56.0%**	**72.6%**
Loss ratio – prior-year reserve releases		**(10.4%)**	**(7.8%)**	**(8.7%)**	**(12.1%)**	**(10.0%)**
Loss ratio – major weather events[1]		**n/a**	**7.9%**	**n/a**	**5.0%**	**2.5%**
Loss ratio – reported	4	**76.0%**	**57.1%**	**60.9%**	**48.9%**	**65.1%**
Commission ratio	4	**3.2%**	**5.7%**	**3.5%**	**19.8%**	**7.1%**
Expense ratio	4	**25.8%**	**23.2%**	**25.6%**	**21.0%**	**24.3%**
Combined operating ratio[2]	4	**105.0%**	**86.0%**	**90.0%**	**89.7%**	**96.5%**
Current-year combined operating ratio[2]		**115.4%**	**93.8%**	**98.7%**	**101.8%**	**106.5%**
For the period ended 30 June 2021						
Net earned premium	4	727.9	274.3	187.2	266.2	1,455.6
Net insurance claims	4	386.6	128.9	111.2	130.4	757.1
Prior-year reserve releases	22	100.7	17.5	2.4	32.3	152.9
Major weather events		n/a	(3.0)	n/a	—	(3.0)
Attritional net insurance claims		487.3	143.4	113.6	162.7	907.0
Loss ratio – current-year attritional		66.9%	52.3%	60.7%	61.1%	62.3%
Loss ratio – prior-year reserve releases		(13.8%)	(6.4%)	(1.3%)	(12.1%)	(10.5%)
Loss ratio – major weather events[1]		n/a	1.1%	n/a	—%	0.2%
Loss ratio – reported	4	53.1%	47.0%	59.4%	49.0%	52.0%
Commission ratio	4	3.1%	5.8%	8.2%	19.8%	7.3%
Expense ratio	4	25.6%	26.2%	25.4%	21.4%	24.9%
Combined operating ratio[2]	4	81.8%	79.0%	93.0%	90.2%	84.2%
Current-year combined operating ratio[2]		95.6%	85.4%	94.3%	102.3%	94.7%

Notes:

1. Home and Commercial claims for major weather events, including inland and coastal flooding and storms.
2. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

The current-year attritional loss ratio excludes prior-year reserve releases and claims costs from major weather events and is therefore an indicator of underlying accident year performance. Our current-year attritional loss ratio of 72.6% increased by 10.3 percentage points compared to H1 2021, with increases across all categories except for Commercial.

In line with expectations, prior-year reserve releases decreased in H1 2022 to £147.9 million (H1 2021: £152.9 million), equivalent to 10.0% of net earned premium (H1 2021: 10.5%) and were concentrated towards more recent accident years. Prior-year reserve releases were lower in Motor which more than offset increases across all other categories, including in Home, which benefited from favourable experience across several perils.

Our current-year combined operating ratio increased by 11.8 percentage points to 106.5% (H1 2021: 94.7%) as a 10.3 percentage point increase in the current-year attritional loss ratio and a 2.3 percentage point increase in claims due to major weather events was partially offset by a 0.6 percentage point improvement in the expense ratio and a 0.2 percentage point improvement in the commission ratio.

Motor

Motor's current-year attritional loss ratio rose 19.5 percentage points to 86.4% (H1 2021: 66.9%) driven by two key factors.

Firstly, Motor's H1 2021 current-year loss ratio was impacted by Covid-19 lockdowns reducing claims frequency which was not repeated in 2022.

Secondly, during the first half of 2022, claims severity inflation increased above where we had assumed in our pricing for accidental damage and third-party damage claims. Elevated used car prices, alongside the impact of supply chain disruption on the average length of repairs and on car hire costs, led to claims severity inflation which we now expect to be around 10% for 2022. Bodily injury claims have not experienced such heightened levels of inflation during H1. Claims frequency was broadly flat across the first half.

We have taken action during Q2 to address this increase in inflation, through rate increases and the deployment of significant pricing capability in Motor following the roll out of our new platform.

We believe our vertically integrated business, including having the largest insurer-owned network of vehicle repair centres, has continued to provide us with a competitive advantage and mitigate some of the market-wide inflationary pressure. We own a total of 22 garages and seek to increase the proportion of repairs that we complete in our own garage network.

In total, prior-year reserve releases were £26.7 million lower year on year compared to H1 2021 at £74.0 million, reducing in line with expectations as favourable releases in 2021 on large bodily injury claims did not recur to the same extent.

Overall, Motor's reported combined operating ratio increased by 23.2 percentage points to 105.0% (H1 2021: 81.8%). This was driven by a 3.4 percentage point decrease in prior-year reserve releases and a 19.5 percentage point increase in the current-year attritional loss ratio. There were marginal increases in the expense ratio and the commission ratio.

Home

Home's current-year attritional loss ratio, excluding major weather event claims, increased by 4.7 percentage points to 57.0%. This was slightly higher than the full year 2021 current-year attritional loss ratio of 55.6% following pricing action taken to navigate the implementation of the FCA Pricing Practices reforms.

Storms Dudley, Eunice and Franklin drove £21.1 million of weather costs in H1, compared to a full year weather expectation in Home of £51.6 million.

With prior-year reserve releases increasing 1.4 percentage points year on year and with a broadly flat commission ratio, this delivered a combined operating ratio, normalised for weather, of 87.5%[1]. We expect lower prior year reserve releases in H2 and so our expectation for the full year is for a combined operating ratio in the low 90s.

Rescue and other personal lines

The combined operating ratio for Rescue and other personal lines improved by 3.0 percentage points to 90.0% (H1 2021: 93.0%) due to an improved commission ratio in other personal lines partially offset by a deterioration in the combined operating ratio for Rescue. Rescue continued to see claims frequency below pre-pandemic levels in H1 2022 which was offset by modest claims severity inflation.

Other personal lines: the combined operating ratio improved by 9.3 points to 100.9% in H1 2022 primarily due to a reduction in the commission ratio.

Commercial

Over recent years Commercial has focused on both growing its policy count and improving margins through disciplined underwriting and improving the efficiency of its operations. This continued in H1 2022, with the current-year attritional loss ratio in Commercial reducing by 5.1 percentage points to 56.0% in H1 2022 compared to H1 2021. The first half of 2022 benefited from below normal levels of large losses which we do not expect to repeat in the second half.

Whilst claims inflation in H1 2022 was at 7.5%, above our medium-term expectations, we increased rates by around 9%, against a market backdrop of increased prices.

With prior-year reserve releases, commission ratio and expense ratio all broadly flat year on year, Commercial delivered a combined operating ratio of 89.7%, 0.5 percentage points lower than H1 2021.

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Operating expenses before restructuring and one-off costs

	Note	**H1 2022** £m	H1 2021 £m
Staff costs[1]		**125.1**	132.5
IT and other operating expenses[1,2]		**87.1**	76.2
Marketing	10	**38.3**	48.0
Sub-total		**250.5**	256.7
Insurance levies	10	**51.9**	55.3
Depreciation, amortisation and impairment of intangible and fixed assets[3]	10	**55.6**	50.6
Total operating expenses before restructuring and one-off costs		**358.0**	362.6

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Includes right of use ("**ROU**") assets and property, plant and equipment. For the period ended 30 June 2022, there were no impairment charges (H1 2021: £0.5 million which related to impairment of intangible assets).

We continued to target significant cost savings as we build a more efficient business. During H1 2022 we made progress by reducing our headline operating expenses by £4.6 million. Staff costs were down by 5.6%, with headcount reducing, demonstrating the progress we have made in our digital transformation and automation.

We expect to reduce our cost base year on year in 2022 and target a cost base of between £690 million and £700 million in 2022. For 2023, we are targeting operating expenses in the region of £670 million. Given the increase in amortisation and market levies over the period, this represents a £76 million (15%) reduction in controllable expenses from 2021 to 2023. We continue to target a 20% expense ratio, but given inflationary pressures and the reduction in motor market average premiums since the target was set, predominantly driven by structurally lower claims frequency, it is now unlikely this will be achieved in 2023.

Instalment and other operating income

	Note	H1 2022 £m	H1 2021 £m
Instalment income		**40.7**	49.1
Other operating income:			
Revenue from vehicle recovery and repair services	7	**14.9**	10.0
Vehicle replacement referral income	7	**7.2**	5.3
Legal services income	7	**2.7**	3.8
Other income[1]	7	**5.7**	4.0
Other operating income:		**30.5**	23.1
Total instalment and other operating income		**71.2**	72.2

Note:

1. Other income includes fee income from insurance intermediary services.

Instalment and other operating income, which is primarily driven by premium and claims volumes, decreased by £1.0 million to £71.2 million. Instalment income fell primarily due to lower Motor gross written premium alongside a modest reduction in customers opting to pay via instalments reflecting lower new business volumes, whereas other operating income increased primarily due to higher claims frequency in Motor driving increased revenue from vehicle recovery and repair services and higher referral income.

Investment return

	Note	H1 2022 £m	H1 2021 £m
Investment income		**58.9**	58.9
Hedging to a sterling floating rate basis		**(4.4)**	(7.3)
Net investment income		**54.5**	51.6
Net realised and unrealised gains excluding hedging		**18.1**	16.8
Total investment return	6	**72.6**	68.4

Investment yields

	H1 2022	H1 2021
Investment income yield annualised[1]	**2.1%**	2.0%
Net investment income yield annualised[1]	**2.0%**	1.7%
Investment return yield annualised[1]	**2.6%**	2.3%

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Total investment return increased by £4.2 million to £72.6 million (H1 2021: £68.4 million) primarily reflecting higher positive fair value adjustments in investment properties year on year. Whilst investment income is flat year on year, this has been generated by lower assets under management, primarily driven by a yield pick-up in variable rate asset classes following the Bank of England's policy actions to increase the UK base rate four times in the first six months of 2022, resulting in a higher net investment income yield of 2.0% (H1 2021: 1.7%).

For 2022, we expect net investment income yield to be in the region of 1.7%, reflecting the decision to not reinvest some high yield maturities during H1 2022, anticipated higher hedging costs in H2 2022 and the Group's plans to reduce credit duration given macroeconomic uncertainty. The reduction in longer duration credit exposure is expected to result in realised losses of between £20 million and £25 million during the second half of 2022. For 2023, we expect the net investment income yield to increase to 2.2%.

Our investment strategy aims to deliver several objectives, which are summarised below:

- to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;
- to match periodic payment orders ("**PPO**") and non-PPO liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with our risk appetite.

Investment holdings

At	30 Jun 2022 £m	31 Dec 2021 £m
Investment-grade credit[1]	**3,205.1**	3,721.1
High yield	**283.9**	342.1
Private placements	**98.2**	91.2
Credit	**3,587.2**	4,154.4
Sovereign[1]	**64.2**	35.7
Total debt securities	**3,651.4**	4,190.1
Infrastructure debt	**244.4**	250.8
Commercial real estate loans	**199.6**	200.8
Cash and cash equivalents[2]	**681.3**	896.5
Investment property	**336.4**	317.0
Equity investments[3]	**14.5**	6.2
Total investment holdings	**5,127.6**	5,861.4

Notes:

1. Asset allocation at 30 June 2022 includes investment portfolio derivatives, which have a mark-to-market asset value of £1.5 million, which is split as an asset of £1.8 million included in investment grade credit and a liability of £0.3 million included in sovereign debt (31 December 2021: mark-to-market asset value of £14.2 million and £0.1 million respectively). This excludes non-investment derivatives that have been used to hedge interest on subordinated debt and operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
3. Equity investments consist of quoted shares and insurtech-focused equity funds which are valued based on external valuation reports received from a third-party fund manager.

At 30 June 2022, total investment holdings of £5,127.6 million were 12.5% lower than at the start of the year. Total debt securities were £3,651.4 million (31 December 2021: £4,190.1 million), of which 2.6% were rated as 'AAA' and a further 55.0% were rated as 'AA' or 'A'. The average duration at 30 June 2022 of total debt securities was 2.3 years (31 December 2021: 2.5 years).

At 30 June 2022, total unrealised losses, net of tax, on available-for-sale ("AFS") investments were £169.5 million (31 December 2021: £9.0 million unrealised gains) following the impact of higher credit spreads and increased interest rates.

Reconciliation of operating profit

	Notes	H1 2022 £m	H1 2021 £m
Motor	4	**61.5**	231.1
Home	4	**52.4**	74.7
Rescue and other personal lines	4	**29.0**	20.5
Commercial	4	**52.6**	43.6
Operating profit	4	**195.5**	369.9
Restructuring and one-off costs	4	**(4.0)**	(91.5)
Finance costs	11	**(13.4)**	(17.1)
Profit before tax	4	**178.1**	261.3
Tax	12	**(32.4)**	(57.5)
Profit for the period attributable to the owners of the Company		**145.7**	203.8

Operating profit by segment

All divisions contributed profit in H1 2022, demonstrating the diversity of our multi-product, multi-brand and multi-channel portfolio. Motor operating profit decreased significantly following high claims severity inflation. Home operating profit decreased primarily due to increases in major weather claims following storms Dudley, Eunice and Franklin, partially offset by an increase in prior-year reserve releases. Rescue and other personal lines profit increased following the non-repeat of the H1 2021 impact of the Covid-19 pandemic on Travel. Rescue operating profit of £28.3 million (H1 2021: £29.0 million) is included in the Rescue and other personal lines result. Commercial operating profit increased due to its strong growth and higher prior-year reserve releases.

Restructuring and one-off costs

We incurred £4.0 million of restructuring and one-off costs in H1 2022, which primarily related to the disposal of two strategic investments.

Finance costs

Finance costs fell to £13.4 million (H1 2021: £17.1 million) primarily as interest payments reduced following the redemption of the Group's outstanding £250 million 9.25% Tier 2 subordinated notes on 27 April 2022.

Effective corporation tax rate

The effective tax rate for H1 2022 was 18.2% (H1 2021: 22.0%), which was lower than the standard UK corporation tax rate of 19.0% (H1 2021: 19.0%) driven primarily by the tax relief for the Tier 1 coupon payments partly offset by disallowable expenses. The effective tax rate is lower than for 2021 which reflected a non-deductible payment to terminate the lease on the Bromley property.

Profit for the period and return on tangible equity[1]

Profit for the period ended 30 June 2022 decreased by £58.1 million to £145.7 million (H1 2021: £203.8 million) as a reduction in operating profit was partially offset by a £87.5 million reduction in restructuring and one-off costs.

Annualised return on tangible equity decreased to 17.8% (H1 2021: 30.1%) due primarily to the lower operating profit. Profit before tax is adjusted for restructuring and one-off costs and coupon payments in respect of Tier 1 notes and a standard tax rate is applied.

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Earnings per share

Basic earnings per share decreased by 27.6% to 10.5 pence (H1 2021: 14.5 pence). Diluted earnings per share decreased by 28.0% to 10.3 pence (H1 2021: 14.3 pence) mainly reflecting a reduction in profit after tax.

Net asset value

At	Note	**30 Jun 2022 £m**	31 Dec 2021 £m
Net assets[1]	15	**2,265.2**	2,550.2
Goodwill and other intangible assets	15	**(832.4)**	(822.5)
Tangible net assets	15	**1,432.8**	1,727.7
Closing number of Ordinary Shares (millions)	15	**1,299.2**	1,317.3
Net asset value per share (pence)	15	**174.4**	193.6
Tangible net asset value per share (pence)	15	**110.3**	131.2

Note:

1. See glossary for definitions and appendix A – Alternative performance measures for reconciliation to financial statement line items.

Net assets at 30 June 2022 decreased by £285.0 million to £2,265.2 million (31 December 2021: £2,550.2 million) and tangible net assets decreased to £1,432.8 million (31 December 2021: £1,727.7 million) following adverse movements in the Group's AFS reserves and dividends paid, partially offset by year to date profits.

Balance sheet management

Capital management and dividend policy

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

The Group aims to grow its regular dividend in line with business growth.

Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it intends to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement ("**SCR**") would be appropriate and it will therefore take this into account when considering the potential for special distributions.

In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

The Group expects that one third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Company may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

The Board has announced an interim dividend of 7.6 pence per share (2021: 7.6 pence).

In the Group's 2021 full year results we announced a share buyback programme of up to £100 million, with an initial tranche of £50 million which was completed on 28 June 2022. Given macroeconomic uncertainty the Board has decided not to launch the second £50 million tranche of the £100 million buyback programme announced earlier in the year.

After the interim dividend, the estimated solvency capital ratio was 152% as at 30 June 2022. The Board understands the importance of the regular dividend to shareholders and notes that the current solvency capital ratio is within the risk appetite range of 140% to 180%. The Group is confident in the sustainability of its regular dividends and is continuing to take action to both improve returns and further increase resilience given continuing macroeconomic uncertainty, including reducing credit exposure and, as previously disclosed, is considering the use of strategic reinsurance. The Board will consider the final dividend for 2022 alongside the full year results.

The interim dividend is scheduled to be paid on 9 September 2022 to shareholders on the register on 12 August 2022. The ex-dividend date will be 11 August 2022.

Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 30 June 2022.

Capital position

At 30 June 2022, the Group held a Solvency II capital surplus of £0.70 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 152%, after the interim dividend.

At	**30 Jun 2022**	31 Dec 2021
Solvency capital requirement (£ billion)	**1.35**	1.35
Capital surplus above solvency capital requirement (£ billion)	**0.70**	1.03
Solvency capital ratio post dividends and share buyback	**152%**	176%
Solvency capital ratio (as above) / adjusted solvency capital ratio[1]	**152%**	160%

Note:

1. Adjusted solvency capital ratio excluding Tier 2 debt which was redeemed on 27 April 2022.

Movement in capital surplus

	6 months 2022	FY 2021
	£bn	£bn
Capital surplus at 1 January	**1.03**	1.22
Capital generation excluding market movements	**0.17**	0.40
Market movements	**(0.13)**	(0.03)
Capital generation	**0.04**	0.37
Change in solvency capital requirement	**–**	(0.01)
Surplus generation	**0.04**	0.36
Capital expenditure	**(0.06)**	(0.12)
Repayment of subordinated Tier 2 notes	**(0.25)**	–
Interim dividend[1]	**(0.10)**	(0.10)
Final dividend	**–**	(0.20)
Share buyback	**–**	(0.10)
Removal of second tranche of share buyback	**0.05**	–
Ineligible Tier 3 capital[2]	**(0.01)**	(0.03)
Net surplus movement	**(0.33)**	(0.19)
Capital surplus at 30 June 2022 / 31 December 2021	**0.70**	1.03

Notes:

1. Foreseeable dividends included above are adjusted to exclude the expected dividend waivers in relation to shares held by the employee share trusts, which are held to meet obligations arising on the various share option awards.
2. At 30 June 2022 ineligible Tier 3 capital arose as the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR. At 31 December 2021 ineligible Tier 3 capital arose as the amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

During H1 2022, the Group repaid its then outstanding £250 million 9.25% subordinated Tier 2 notes. It generated £0.04 billion of Solvency II capital after market movements and reinstated £0.05 billion for the removal of the second £50 million tranche of the share buyback programme. This was offset by £0.06 billion of capital expenditure and H1 2022 dividends of £0.10 billion. At 30 June 2022 there was a £0.01 billion increase of ineligible capital relating to deferred tax assets. Capital expenditure levels are expected to be around £120 million in 2022.

Change in solvency capital requirement

	2022
	£bn
Solvency capital requirement at 1 January	**1.35**
Model and parameter changes	**(0.01)**
Exposure changes	**0.01**
Solvency capital requirement at 30 June	**1.35**

At H1 2022 the Group's SCR remained the same at £1.35 billion. Exposure changes resulted in a £0.01 billion increase, which was offset by a decrease of £0.01 billion relating to model and parameter changes.

Scenario and sensitivity analysis[1]

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 30 June 2022. The impact on the Group's solvency capital ratio arises from movements in both the Group's SCR and own funds.

	Impact on solvency capital ratio[2]	
Scenario	**30 Jun 2022**	31 Dec 2021
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	**(4pts)**	(5pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(9pts)**	(9pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(9pts)**	(9pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[3]	**(9pts)**	(9pts)
100bps increase in credit spreads[4]	**(7pts)**	(8pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**(2pts)**	(2pts)

Notes:

1. Sensitivities are calculated under the assumption full tax benefits can be realised.
2. 2021 figures exclude from own funds the value of the £250 million Tier 2 subordinated debt which was redeemed on 27 April 2022.
3. The PPO inflation assumption used is an actuarial judgement which is reviewed annually based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve.
4. Only includes the impact on AFS assets (excludes assets held at amortised costs) and assumes no change to the SCR.

Own funds

The following table splits the Group's eligible own funds by tier on a Solvency II basis.

At	**30 Jun 2022**	31 Dec 2021
	£bn	£bn
Tier 1 capital before foreseeable distributions	**1.37**	1.66
Foreseeable dividend and share buyback	**(0.10)**	(0.30)
Tier 1 capital – unrestricted	**1.27**	1.36
Tier 1 capital – restricted	**0.34**	0.36
Less reclassified restricted Tier 1 debt[1]	**(0.02)**	(0.02)
Eligible Tier 1 capital	**1.59**	1.70
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.26**	0.53
Tier 3 capital – deferred tax	**0.24**	0.18
Ineligible Tier 3 capital[2]	**(0.04)**	(0.03)
Total eligible own funds	**2.05**	2.38

Notes:

1. As at 30 June 2022 £22 million (31 December 2021: £19 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 30 June 2022 ineligible Tier 3 capital arose as the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR. At 31 December 2021 ineligible Tier 3 capital arose as the combined amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR.

During H1 2022, the Group's eligible own funds reduced from £2.38 billion to £2.05 billion. Eligible Tier 1 capital after foreseeable distributions represents 78% of own funds and 118% of the estimated SCR. Tier 2 capital relates to the Group's £0.24 billion subordinated debt and £0.02 billion of ineligible Tier 1 capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and the amount of Tier 3 alone is 15% of the Group's SCR. The Group has Tier 3 ineligible own funds of £0.04 billion.

Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds

At	30 Jun 2022 £bn	31 Dec 2021 £bn
Total shareholders' equity	**2.27**	2.55
Goodwill and intangible assets	**(0.83)**	(0.82)
Change in valuation of technical provisions	**0.03**	(0.01)
Other asset and liability adjustments	**(0.10)**	(0.06)
Foreseeable dividend and share buyback	**(0.10)**	(0.30)
Tier 1 capital – unrestricted	**1.27**	1.36
Tier 1 capital – restricted	**0.34**	0.36
Less reclassified restricted Tier 1 debt[1]	**(0.02)**	(0.02)
Tier 1 capital	**1.59**	1.70
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.26**	0.53
Tier 3 capital – deferred tax	**0.24**	0.18
Ineligible Tier 3 capital[2]	**(0.04)**	(0.03)
Total own funds	**2.05**	2.38

Notes:

1. As at 30 June 2022 £22 million (31 December 2021: £19 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 30 June 2022 the amount of Tier 2 capital permitted under the Solvency II regulations is 15% of the Group's SCR which resulted in ineligible capital of £36 million. At 31 December 2021 the amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR which resulted in ineligible capital of £31 million.

Leverage

The Group's financial leverage decreased by 4.1 percentage point to 21.1% (2021: 25.2%). The decrease was primarily due to a reduction in subordinated debt following the redemption of the Group's outstanding £250 million 9.25% Tier 2 notes on 27 April 2022, partially offset by a reduction in shareholder's equity primarily due to a reduction in the Group's AFS reserves.

At	30 Jun 2022 £m	31 Dec 2021 £m
Shareholders' equity	**2,265.2**	2,550.2
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**258.4**	513.6
Total capital employed	**2,870.1**	3,410.3
Financial-leverage ratio[1]	**21.1%**	25.2%

Note:

1. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provides insurance financial-strength ratings for U K Insurance Limited, our principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a stable outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. We consider the class of business, the length of time to notify a claim, the validity of the claim against a policy, and the claim value. Claims reserves could settle across a range of outcomes, and settlement certainty increases over time. However, for bodily injury claims the uncertainty is greater due to the length of time taken to settle these claims. The possibility of annuity payments for injured parties also increases this uncertainty.

We seek to adopt a prudent approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short- and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, minus 0.75% in Scotland, and minus 1.75% in Northern Ireland.

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance for the 2014 to 2020 underwriting years. Since 2021, we have reduced the level of Motor reinsurance purchased from 2021 resulting in higher net reserves for accident years 2021 and 2022.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity.

Higher claims inflation remains a risk, given the continuing rise in consumer prices and wage inflation. Consumer prices inflation is at its highest level for the past decade and is not expected to decline until 2023. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific claims inflation scenarios for goods and services have therefore been considered in the reserving process.

Prior-year reserve releases were £147.9 million (H1 2021: £152.9 million) concentrated towards more recent accident years, with good experience across all categories.

Looking forward, we expect to continue setting our initial management best estimate with an appropriate degree of prudence. Assuming current claims trends continue, the contribution from prior-year reserve releases is expected to reduce but remain significant.

Claims reserves net of reinsurance

At	**30 Jun 2022**	31 Dec 2021
	£m	£m
Motor	**1,533.0**	1,607.9
Home	**294.0**	297.8
Rescue and other personal lines	**91.4**	95.4
Commercial	**537.1**	547.3
Total	**2,455.5**	2,548.4

Sensitivity analysis – the discount rate used in relation to PPOs, changes in the assumed Ogden discount rate and claims inflation

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs, the Ogden discount rate or claims inflation) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts.

	Increase/(decrease) in profit before tax[1,2]	
At	**30 Jun 2022**	31 Dec 2021
	£m	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**43.7**	43.0
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(59.8)**	(58.9)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2021: 0.75% compared to minus 0.25%)	**43.4**	42.5
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2021: minus 1.25% compared to minus 0.25%)	**(59.5)**	(59.4)
Claims inflation		
Impact of a decrease in claims inflation by 100 basis points for two consecutive years	**38.2**	37.3
Impact of an increase in claims inflation by 100 basis points for two consecutive years	**(37.9)**	(37.6)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 30 June 2022. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

NEIL MANSER

CHIEF FINANCIAL OFFICER

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £40 million or more on a 1-in-200 years basis, taking into account customer, financial and reputational impacts. The Group considers that the type of risks facing the Group remain broadly unchanged over the last six months and since the profile disclosed in the Annual Report and Accounts 2021 Risk management section on pages 91 to 92. However, certain risks including insurance risk have increased since year end 2021, with a higher level of risk assessed, in aggregate.

Principal risk
Insurance risk The risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting. Key drivers of insurance risk include reserve, underwriting, distribution, pricing and reinsurance risks. Issues relating to Covid-19, the FCA pricing practices report, inflationary pressures, the cost of living crisis and the potential for a deepened recession have been a key area of focus for the Group and the main drivers of the increasing trend in insurance risk. Relative size of risk - large Trend over the next 12 months - increasing
Market risk The risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Key drivers of market risk are the sensitivity of the values of our assets and investments to changes in credit spreads, and our exposure to losses as a result of changes in interest rate term structure or volatility. While H1 credit spreads widened due to increasing inflation levels, future recession concerns, and in part, the war in Ukraine, the Group has taken action and will continue to seek to limit the sensitivity to further credit spread widening. Relative size of risk - medium Trend over the next 12 months - stable
Operational risk The risk of loss due to inadequate or failed internal processes or systems, human error or from external events. The key risks within this category are cyber, technology & infrastructure, operational resilience, change, people, information management, outsourcing, partnerships and fraud. Relative size of risk - low Trend over the next 12 months - stable
Strategic risk The risk of direct or indirect impact on the earnings, capital, or value of the business as a result of strategies not being optimally chosen, implemented or adapted to changing conditions. Relative size of risk - low Trend over the next 12 months - stable
Conduct risk The risk of failing to put the customer at the heart of the Group's business, failing to deliver on its commitments and/or failing to ensure that fairness is a natural outcome of what it does and how it is done. A key driver of the increasing trend relates to the programmes of work to achieve compliance with regulatory developments and expectations, such as those arising from the FCA pricing practices review, and those relating to the Consumer Duty and the cost of living crisis. Relative size of risk – very low Trend over the next 12 months – increasing
Regulatory and compliance risk The risk of reputational damage, regulatory or legal censure, fines or prosecutions and other types of losses arising from non-compliance with regulations and law. A key driver of this risk relates to the volume of current and anticipated regulatory change activity. Relative size of risk - very low Trend over the next 12 months - increasing
Credit risk The risk of loss resulting from default in obligations due from and/or changes in the credit standing of issuers of securities, counterparties or any debtors to which the Group is exposed. Relative size of risk - very low Trend over the next 12 months - stable

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and potential UK recession, driven by the challenging macroeconomic environment. This, in conjunction with a challenging trading environment, could lead to or exacerbate existing risks for the Group and we remain alert to possible developments across our risk universe.

Emerging risks

Emerging risks are defined by the Group as newly developing or changing threats or opportunities, external to the Group, that are subject to a high degree of uncertainty but have the potential to materially impact the Group.

The Group has in place an emerging risks process designed to enable it to:

- have a proactive approach to emerging risk management;
- identify, manage and monitor a broad range of potential emerging risks; and
- mitigate the impact of emerging risks which could impact the delivery of the Strategic Plan.

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks.

The most notable emerging risks currently being monitored via the emerging risks process are outlined below.

Changing customer needs

As consumers face intense pressure on their finances and time, coupled with generational changes, this is anticipated to generate a rapid structural shift in customer demand, requiring the Group to innovate and adapt its product offerings in order to remain relevant in the marketplace. The Group is focused on ensuring that it enables a fast, safe route to market for its products, as well as embedding Consumer Duty principles.

Digital disruption

Developments in technology and changes in market, regulatory and consumer trends are creating opportunities for new entrants to profitably exploit new distribution channels, business models and niches. Failure to keep up with such developments could lead the Group to fall behind, and the Group is undertaking programmes designed to provide it with the capabilities to enable future innovation at pace.

Geopolitical tension

Due to heightened tensions on the world stage and global shifts in power, there is a risk that measures are implemented by governments that decrease political stability, erode countries' relationships and contribute to increasing protectionism. This could lead to multiple impacts, including on investment performance and supply chains. The Group conducts ongoing analysis to monitor exposure to the developing geopolitical environment (for example, the ongoing conflict in Ukraine), while maintaining a close eye over the political risk landscape.

Automotive technology

New car technology is in development which, once on UK roads, is expected to be transformative. Traditional motor policies may no longer serve the needs of customers, requiring changes to the Group's pricing models and policy wordings to remain relevant. The repair networks' capabilities will also need to be upgraded to serve this demand effectively. The Group plans to focus on launching new products designed to better serve customer needs in the future while engaging with regulators to help shape policies and understand potential impacts for the Group.

Transition to a low-carbon economy

As the world takes steps to mitigate climate change and reduce emissions of greenhouse gases, this will have profound effects on the value of traditional assets, the regulatory landscape and consumer and shareholder expectations. As the industry moves to reduce its exposure to climate risks, some consumers may find their access to insurance restricted or prohibitively expensive. The Group is developing a data management system alongside a reporting and governance structure to deliver central oversight of progress against the Group's targets and to satisfy requirements for external reporting, as well as deliver on the Group's climate strategy.

Data ethics

Consumers are becoming more aware of their data rights and regulators more interested in how firms use customer data. The industry is also gathering more data than ever before and increasingly exploring more sophisticated processing capabilities, such as AI and machine-learning. These trends together could lead to insurers using data in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes. The Group is embedding its data ethics framework within pricing & underwriting policies and procedures, while providing guardrails to apply across the Group. As new data capabilities are introduced, we will implement monitoring and oversight designed to ensure adherence to the principles set out in the framework.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

	Notes	**6 months 2022 £m unaudited**	6 months 2021 £m unaudited	Full year 2021 £m audited
Gross earned premium		**1,561.0**	1,566.8	3,168.0
Reinsurance premium		**(89.0)**	(111.2)	(210.6)
Net earned premium	5	**1,472.0**	1,455.6	2,957.4
Investment return	6	**72.6**	68.4	146.3
Instalment income		**40.7**	49.1	97.3
Other operating income	7	**30.5**	23.1	46.7
Total income		**1,615.8**	1,596.2	3,247.7
Insurance claims		**(1,008.5)**	(814.4)	(1,915.3)
Insurance claims recoverable from reinsurers		**50.7**	57.3	196.6
Net insurance claims	8	**(957.8)**	(757.1)	(1,718.7)
Commission expenses	9	**(104.5)**	(106.6)	(240.9)
Operating expenses (including restructuring and one-off costs)	10	**(362.0)**	(454.1)	(807.8)
Total expenses		**(466.5)**	(560.7)	(1,048.7)
Finance costs	11	**(13.4)**	(17.1)	(34.3)
Profit before tax		**178.1**	261.3	446.0
Tax charge	12	**(32.4)**	(57.5)	(102.3)
Profit for the period attributable to the owners of the Company		**145.7**	203.8	343.7
Earnings per share:				
Basic earnings per share (pence)	14	**10.5**	14.5	24.5
Diluted earnings per share (pence)	14	**10.3**	14.3	24.1

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Profit for the period attributable to the owners of the Company	**145.7**	203.8	343.7
Other comprehensive loss			
Items that will not be reclassified subsequently to the income statement:			
Remeasurement gain on defined benefit pension scheme	**–**	–	3.8
Tax relating to items that will not be reclassified	**–**	0.2	(0.8)
	–	0.2	3.0
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges	**0.6**	(0.1)	(0.3)
Fair value loss on AFS investments	**(238.4)**	(36.2)	(84.1)
Add: net loss/(gains) on AFS investments transferred to income statement on disposals	**0.2**	(6.8)	(7.9)
Tax relating to items that may be reclassified	**59.7**	4.6	17.1
	(177.9)	(38.5)	(75.2)
Other comprehensive loss for the period net of tax	**(177.9)**	(38.3)	(72.2)
Total comprehensive (loss)/income for the period attributable to the owners of the Company	**(32.2)**	165.5	271.5

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022

	Notes	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
Assets			
Goodwill and other intangible assets		**832.4**	822.5
Property, plant and equipment		**113.4**	113.8
Right-of-use assets		**72.7**	76.1
Investment property		**336.4**	317.0
Reinsurance assets	16	**1,205.1**	1,211.8
Current tax assets		**7.2**	14.4
Deferred tax assets		**60.9**	—
Deferred acquisition costs		**186.8**	186.6
Insurance and other receivables		**783.5**	762.8
Prepayments, accrued income and other assets		**115.0**	125.1
Derivative financial instruments		**76.8**	35.9
Retirement benefit asset		**12.1**	12.1
Financial investments	17	**4,108.4**	4,633.6
Cash and cash equivalents	18	**777.2**	955.7
Assets held for sale		**21.9**	41.2
Total assets		**8,709.8**	9,308.6
Equity			
Shareholders' equity		**2,265.2**	2,550.2
Tier 1 notes	20	**346.5**	346.5
Total equity		**2,611.7**	2,896.7
Liabilities			
Subordinated liabilities	21	**258.4**	513.6
Insurance liabilities	22	**3,618.5**	3,680.5
Unearned premium reserve		**1,461.0**	1,500.7
Borrowings	18	**95.9**	59.2
Derivative financial instruments		**74.8**	19.5
Provisions		**75.3**	96.4
Trade and other payables, including insurance payables		**433.7**	457.3
Lease liabilities		**80.5**	84.2
Deferred tax liabilities		**–**	0.5
Total liabilities		**6,098.1**	6,411.9
Total equity and liabilities		**8,709.8**	9,308.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital (note 19) £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 20) £m	Total equity £m
Balance at 1 January 2021 (audited)	148.9	(40.3)	1,451.1	83.9	—	1,056.1	2,699.7	346.5	3,046.2
Profit for the year	—	—	—	—	—	343.7	343.7	—	343.7
Other comprehensive (loss)/ income	—	—	—	(74.9)	(0.3)	3.0	(72.2)	—	(72.2)
Other comprehensive (loss)/ income for the year	—	—	—	(74.9)	(0.3)	346.7	271.5	—	271.5
Dividends and appropriations paid (note 13)	—	—	—	—	—	(317.4)	(317.4)	—	(317.4)
Shares acquired by employee trusts	—	(20.3)	—	—	—	—	(20.3)	—	(20.3)
Shares cancelled following buyback	(3.7)	—	3.7	—	—	(101.0)	(101.0)	—	(101.0)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	17.0	17.0	—	17.0
Shares distributed by employee trusts	—	19.2	—	—	—	(19.2)	—	—	—
Tax on share-based payments	—	—	—	—	—	0.7	0.7	—	0.7
Total transactions with equity holders	(3.7)	(1.1)	3.7	—	—	(419.9)	(421.0)	—	(421.0)
Balance at 31 December 2021 (audited)	145.2	(41.4)	1,454.8	9.0	(0.3)	982.9	2,550.2	346.5	2,896.7
Profit for the period	**–**	**–**	**–**	**–**	**–**	**145.7**	**145.7**	**–**	**145.7**
Other comprehensive (loss)/ income	**–**	**–**	**–**	**(178.5)**	**0.6**	**–**	**(177.9)**	**–**	**(177.9)**
Other comprehensive (loss)/ income for the period[1]	**–**	**–**	**–**	**(178.5)**	**0.6**	**145.7**	**(32.2)**	**–**	**(32.2)**
Dividends and appropriations paid (note 13)	**–**	**–**	**–**	**–**	**–**	**(207.2)**	**(207.2)**	**–**	**(207.2)**
Shares acquired by employee trusts	**–**	**(4.0)**	**–**	**–**	**–**	**–**	**(4.0)**	**–**	**(4.0)**
Shares cancelled following buyback	**(2.1)**	**–**	**2.1**	**–**	**–**	**(50.1)**	**(50.1)**	**–**	**(50.1)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**8.4**	**8.4**	**–**	**8.4**
Shares distributed by employee trusts	**–**	**8.7**	**–**	**–**	**–**	**(8.7)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**	**–**	**0.1**
Total transactions with equity holders[1]	**(2.1)**	**4.7**	**2.1**	**–**	**–**	**(257.5)**	**(252.8)**	**–**	**(252.8)**
Balance at 30 June 2022 (unaudited)	**143.1**	**(36.7)**	**1,456.9**	**(169.5)**	**0.3**	**871.1**	**2,265.2**	**346.5**	**2,611.7**

Note:

1. Transactions from 1 January 2022 to 30 June 2022 are unaudited.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital (note 19) £m	Employee trust shares £m	Capital reserves £m	AFS revaluation reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 20) £m	Total equity £m
Balance at 1 January 2021 (audited)	148.9	(40.3)	1,451.1	83.9	—	1,056.1	2,699.7	346.5	3,046.2
Profit for the period	—	—	—	—	—	203.8	203.8	—	203.8
Other comprehensive (loss)/ income	—	—	—	(38.4)	(0.1)	0.2	(38.3)	—	(38.3)
Other comprehensive (loss)/ income for the period	—	—	—	(38.4)	(0.1)	204.0	165.5	—	165.5
Dividends and appropriations paid (note 13)	—	—	—	—	—	(207.2)	(207.2)	—	(207.2)
Shares acquired by employee trusts	—	(10.3)	—	—	—	—	(10.3)	—	(10.3)
Shares cancelled following buyback	(1.8)	—	1.8	—	—	(50.3)	(50.3)	—	(50.3)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	8.8	8.8	—	8.8
Shares distributed by employee trusts	—	13.1	—	—	—	(13.1)	—	—	—
Tax on share-based payments	—	—	—	—	—	0.1	0.1	—	0.1
Total transactions with equity holders	(1.8)	2.8	1.8	—	—	(261.7)	(258.9)	—	(258.9)
Balance at 30 June 2021 (unaudited)	147.1	(37.5)	1,452.9	45.5	(0.1)	998.4	2,606.3	346.5	2,952.8

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022

	Notes	**6 months 2022 £m unaudited**	6 months 2021 £m unaudited	Full year 2021 £m audited
Net cash (used by)/generated from operating activities before investment of insurance assets		**(34.8)**	107.5	271.8
Cash generated from/(used by) investment of insurance assets		**394.2**	(9.0)	167.2
Net cash generated from operating activities		**359.4**	98.5	439.0
Cash flows used in investing activities				
Purchases of goodwill and other intangible assets		**(54.6)**	(53.6)	(109.4)
Purchases of property, plant and equipment		**(7.0)**	(20.0)	(29.3)
Proceeds on disposals of assets held for sale		**19.3**	—	—
Net cash used in investing activities		**(42.3)**	(73.6)	(138.7)
Cash flows used in financing activities				
Dividends paid	13	**(198.9)**	(198.9)	(300.8)
Appropriations paid	13	**(8.3)**	(8.3)	(16.6)
Finance costs (including lease interest)		**(16.2)**	(15.7)	(31.4)
Principal element of lease payments		**(4.8)**	(104.4)	(101.9)
Purchase of employee trust shares		**(4.0)**	(10.3)	(20.3)
Redemption of subordinated Tier 2 notes		**(250.0)**	—	—
Shares purchased in buyback		**(50.1)**	(50.3)	(101.0)
Net cash used in financing activities		**(532.3)**	(387.9)	(572.0)
Net decrease in cash and cash equivalents		**(215.2)**	(363.0)	(271.7)
Cash and cash equivalents at the beginning of the year	18	**896.5**	1,168.2	1,168.2
Cash and cash equivalents at the end of the period	18	**681.3**	805.2	896.5

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England and Wales (company number 02280426).

The address of the registered office is Churchill Court, Westmoreland Road, Bromley BR1 1DP, England.

1. General information

The financial information for the year ended 31 December 2021 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S.434 of the Companies Act 2006 but has been abridged from the statutory accounts for that year which have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2021 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S.498(2) or (3) of the Companies Act 2006.

2. Accounting policies

2.1 Basis of preparation

The annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") as adopted by the UK. The unaudited condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the UK.

2.2 Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken in the last six months to ensure the continued strength of the balance sheet. The Group's financial position is also covered in that section, including a commentary on cash and investment holdings, claims reserves and management of insurance liabilities, and the Group's financial leverage.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle. These included the implementation of the FCA's Pricing Practices review and the ongoing potential for challenging market conditions due to the impact of the Covid-19 pandemic on the economy, customer behaviour and the pricing environment. The 2021 Strategic Plan modelled a number of different scenarios which included the impact of the pandemic on the underwriting cycle and motor claims frequency and the possible impacts of the Pricing Practices review. The key judgements applied were primarily in relation to the further disruption from the Covid-19 pandemic and the impact on the general insurance market, the economic recovery and the impact of the Pricing Practices review on customer behaviour. The 2021 Strategic Plan indicated that the Group would continue to maintain levels of solvency in line with its risk appetite across the planning cycle (to 31 December 2025). The Strategic Plan has been refreshed in the first part of 2022 with a particular focus on current inflation scenarios and wider potential impacts from the cost of living crisis which broadly indicates that the Group will continue to maintain levels of solvency in line with its risk appetite.

In addition, the Group's Risk Function has carried out an assessment of the risks to the Strategic Plan and the dependencies for the success of the Plan. This included running stress tests on the Plan to consider the 1 in 8 years and 1 in 25 years loss simulations based on the internal economic capital model. In both scenarios, it was concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

A reverse stress test was also performed to identify the most probable combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The purpose of this reverse stress test was to assess the coverage and scope of the internal economic capital model and no material findings were identified to invalidate the internal model.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 1 August 2022 (the date of approval of the condensed consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the condensed consolidated financial statements.

2.3 Accounting policies and developments

The Group's accounting policies, presentation and methods of computation that are followed in the preparation of the condensed consolidated financial statements are the same as applied in the Group's latest annual audited financial statements.

The Group has not been required to adopt any new amendments to IFRS and International Accounting Standards ("**IAS**") that became mandatorily effective for the first time during 2022. It has, however, acquired quoted equity investments during 2022 which are valued at fair value through profit or loss ("**FVTPL**").

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9; it was endorsed by the EU[1] in 2016. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It was effective for reporting periods beginning on or after 1 January 2018, however its adoption by the Group has been deferred as described below.

2.3 Accounting policies and developments continued

In September 2016, the IASB issued Amendments to IFRS 4: 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address issues arising from the different effective dates of IFRS 9 and IFRS 17 'Insurance Contracts'. These were endorsed by the EU[1] in November 2017.

These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9 to coincide with the expected effective date of IFRS 17. The Group conducted a high-level assessment of the three aspects of IFRS 9 and based on current information, the impact of applying the expected loss model for the first time is currently immaterial. The Group does not expect any other significant impact on its financial statements.

The amendments required insurance entities to evaluate whether their activities were predominantly connected to insurance as at their annual reporting date immediately preceding 1 April 2016, providing an option to defer adoption of IFRS 9 if liabilities connected to insurance comprised a predominant proportion of their total liabilities as at that date. The Group concluded that it satisfied the criteria and there have been no significant changes in the Group's activities since this assessment to require a reassessment of the criteria.

As the effective date of IFRS 17 has since been delayed to 1 January 2023, 'Amendments to IFRS 4 – Deferral of IFRS 9' was issued in June 2020, and adopted by the UK in January 2021, which delays the effective date of IFRS 9 so as to remain in line with IFRS 17.

IFRS 17 'Insurance Contracts' was issued by the IASB in May 2017 to replace IFRS 4 ‘Insurance Contracts’ and is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. It was endorsed by the UK in May 2022. IFRS 17 is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies.

As the vast majority of the Group's insurance contracts have a coverage period that is 12 months or less, the Group intends to adopt the simplified premium allocation approach ("**PAA**") for all insurance and reinsurance contract groups. In applying the PAA, an entity measures the liability for remaining coverage ("**LRC**") of a group of insurance contracts on initial recognition as the premiums received less any insurance acquisition costs paid. Subsequently, the LRC increases with any further premiums received and decreases on a straight-line basis as insurance service revenue is recognised in profit or loss. The closest equivalent on the Group's current balance sheet is the unearned premium reserve. The measurement of the Group's liability for incurred claims ("**LIC**") will require the Group to determine a probability-weighted best estimate of future fulfilment cash flows, discounted to reflect the time value of money with a risk adjustment to compensate for the uncertainty in the amount and timing of such cash flows. The closest equivalent on the Group's current balance sheet is insurance liabilities.

The Group remains on track to complete the necessary data and technology changes required to transition to IFRS 9 and IFRS 17 from 1 January 2023, with a period of parallel run planned for the second half of 2022.

The Group also continues to refine its accounting policy choices and accounting judgements under IFRS 9 and IFRS 17 and therefore it is not possible to accurately estimate the likely impact of either IFRS 9 or IFRS 17 on the Group's financial statements at this stage.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Note:

1. On 31 December 2020, all EU-adopted international accounting standards became UK-adopted international accounting standards.

3. Critical accounting judgements and key sources of estimation uncertainty

Full details of critical accounting judgements and key sources of estimation uncertainty used in applying the Group’s accounting policies are outlined on pages 190 to 191 of the Annual Report & Accounts 2021. There have been no significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty in the period ended 30 June 2022 however; in the light of the uncertain economic environment, an update is provided below.

3.1. Impairment provisions – financial assets

The Group’s financial assets are classified as available-for-sale ("**AFS**") or held-to-maturity ("**HTM**") debt securities, FVTPL equity or loans and receivables. Excluding those assets held at FVTPL, the Group makes a judgement that financial assets are impaired when there is objective evidence that an event or events since the initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. The performance of the Group’s financial assets is closely monitored. The Group’s investment strategy limits exposure to individual asset classes and the amount of illiquid investments held.

The majority of the Group’s financial assets are classified as AFS (30 June 2022: £3,551.7 million; 31 December 2021: £4,084.6 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio. Had all of the declines in AFS asset values from 1 January 2022 to 30 June 2022 met the criteria explained on page 190 of the Annual Report & Accounts 2021, this would have resulted in a loss of £230.1 million (year ended 31 December 2021: loss £24.8 million).

The Group has a small portfolio of investments classified as HTM (30 June 2022: £98.2 million on 31 December 2021: £91.2 million). These assets are measured at amortised cost and there have been no impairment losses.

3.1. Impairment provisions – financial assets continued

The Group has a portfolio of investments classified as loans and receivables, comprising infrastructure debt and commercial real estate loans (total 30 June 2022: £444.0 million; 31 December 2021: £451.6 million). There have been no impairment losses for either infrastructure or commercial real estate loans included in the condensed consolidated financial statements for the six months ending 30 June 2022, and the Group will continue to monitor developments accordingly.

3.2. Fair value of investment properties

The Group holds a portfolio of investment properties, with a fair value at 30 June 2022 of £336.4 million (31 December 2021: £317.0 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value is determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy (see note 23).

3.3. General insurance: outstanding claims provisions and related reinsurance recoveries

General insurance claims provisions are £3,618.5 million at 30 June 2022 (31 December 2021: £3,680.5 million) and reinsurance recoverables are £1,163.0 million at 30 June 2022 (31 December 2021: £1,132.1 million). The Group's reserves are exposed to the risk of changes in claims development patterns and claims inflation.

Higher claims inflation remains a risk, given the continuing rise in consumer prices and wage inflation. the Consumer Prices Index measure of inflation is at its highest level for the past decade and is not expected to decline until 2023. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific claims inflation scenarios for goods and services have therefore been considered in the reserving process.

Changes in claims frequency present greater uncertainty for the unearned part of the business, whereas uncertainty over the level of claims severity has a greater impact on both the earned and unearned claims reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims as well as input costs and replacement costs for damage claims, in particular increased second-hand car costs in Motor. The sensitivity analysis in the Chief Financial Officer Review continues to look at a 100 basis point change in the claims inflation assumed in the actuarial best estimate over the next two years and therefore continues to remain relevant and within the Group's booked reserve margin.

There have been no other significant changes to the principles or assumptions of these critical accounting judgements and key sources of estimation uncertainty during the six months to 30 June 2022.

4. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2022 (unaudited).

	Motor	Home	Rescue and other personal lines	Commercial	**Total Group**
	£m	£m	£m	£m	**£m**
Gross written premium	706.8	250.4	186.3	377.8	**1,521.3**
Gross earned premium	758.2	280.3	192.0	330.5	**1,561.0**
Reinsurance premium	(45.0)	(12.7)	(1.5)	(29.8)	**(89.0)**
Net earned premium	713.2	267.6	190.5	300.7	**1,472.0**
Investment return	48.1	6.3	1.9	16.3	**72.6**
Instalment income	27.3	8.4	1.3	3.7	**40.7**
Other operating income	21.9	0.3	6.8	1.5	**30.5**
Total income	810.5	282.6	200.5	322.2	**1,615.8**
Insurance claims	(593.9)	(152.8)	(116.1)	(145.7)	**(1,008.5)**
Insurance claims recoverable from/(payable to) reinsurers	51.7	—	0.2	(1.2)	**50.7**
Net insurance claims	(542.2)	(152.8)	(115.9)	(146.9)	**(957.8)**
Commission expenses	(23.1)	(15.3)	(6.7)	(59.4)	**(104.5)**
Operating expenses before restructuring and one-off costs	(183.7)	(62.1)	(48.9)	(63.3)	**(358.0)**
Total expenses	(206.8)	(77.4)	(55.6)	(122.7)	**(462.5)**
Operating profit	**61.5**	**52.4**	**29.0**	**52.6**	**195.5**
Restructuring and one-off costs					**(4.0)**
Finance costs					**(13.4)**
Profit before tax					**178.1**

	Motor	Home	Rescue and other personal lines	Commercial	**Total Group**
Underwriting (loss)/profit	**(35.8)**	**37.4**	**19.0**	**31.1**	**51.7**
Loss ratio	76.0 %	57.1 %	60.9 %	48.9 %	**65.1 %**
Commission ratio	3.2 %	5.7 %	3.5 %	19.8 %	**7.1 %**
Expense ratio	25.8 %	23.2 %	25.6 %	21.0 %	**24.3 %**
Combined operating ratio	**105.0 %**	**86.0 %**	**90.0 %**	**89.7 %**	**96.5 %**

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2022 (unaudited).

	Motor	Home	Rescue and other personal lines	Commercial	**Total Group**
	£m	£m	£m	£m	**£m**
Goodwill	130.4	45.8	28.7	10.1	**215.0**
Assets held for sale	15.6	1.9	0.5	3.9	**21.9**
Other segment assets	6,053.0	708.0	250.9	1,461.0	**8,472.9**
Segment liabilities	(4,341.4)	(520.4)	(153.8)	(1,082.5)	**(6,098.1)**
Segment net assets	**1,857.6**	**235.3**	**126.3**	**392.5**	**2,611.7**

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2021 (unaudited).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Gross written premium	755.6	278.3	186.5	336.1	1,556.5
Gross earned premium	796.4	287.2	188.7	294.5	1,566.8
Reinsurance premium	(68.5)	(12.9)	(1.5)	(28.3)	(111.2)
Net earned premium	727.9	274.3	187.2	266.2	1,455.6
Investment return	45.6	6.9	2.0	13.9	68.4
Instalment income	35.9	9.1	1.5	2.6	49.1
Other operating income	17.2	1.0	3.9	1.0	23.1
Total income	826.6	291.3	194.6	283.7	1,596.2
Insurance claims	(420.7)	(131.4)	(103.4)	(158.9)	(814.4)
Insurance claims recoverable from/(payable to) reinsurers	34.1	2.5	(7.8)	28.5	57.3
Net insurance claims	(386.6)	(128.9)	(111.2)	(130.4)	(757.1)
Commission expenses	(22.7)	(16.0)	(15.3)	(52.6)	(106.6)
Operating expenses before restructuring and one-off costs	(186.2)	(71.7)	(47.6)	(57.1)	(362.6)
Total expenses	(208.9)	(87.7)	(62.9)	(109.7)	(469.2)
Operating profit	231.1	74.7	20.5	43.6	369.9
Restructuring and one-off costs					(91.5)
Finance costs					(17.1)
Profit before tax					261.3

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	132.4	57.7	13.1	26.1	229.3
Loss ratio	53.1 %	47.0 %	59.4 %	49.0 %	52.0 %
Commission ratio	3.1 %	5.8 %	8.2 %	19.8 %	7.3 %
Expense ratio	25.6 %	26.2 %	25.4 %	21.4 %	24.9 %
Combined operating ratio	81.8 %	79.0 %	93.0 %	90.2 %	84.2 %

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2021 (unaudited).

	Motor £m	Home £m	Rescue and other personal lines £m	Commercial £m	Total Group £m
Goodwill	130.4	45.8	28.7	10.1	215.0
Other segment assets	6,526.9	743.4	338.6	1,485.6	9,094.5
Segment liabilities	(4,526.4)	(543.9)	(218.1)	(1,068.3)	(6,356.7)
Segment net assets	2,130.9	245.3	149.2	427.4	2,952.8

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

4. Segmental analysis continued

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2021 (audited).

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Gross written premium	1,560.8	577.8	380.0	653.0	3,171.6
Gross earned premium	1,597.8	579.8	372.5	617.9	3,168.0
Reinsurance premium	(124.5)	(26.4)	(3.0)	(56.7)	(210.6)
Net earned premium	1,473.3	553.4	369.5	561.2	2,957.4
Investment return	99.8	12.5	3.7	30.3	146.3
Instalment income	69.4	18.3	3.0	6.6	97.3
Other operating income	33.9	1.0	9.7	2.1	46.7
Total income	1,676.4	585.2	385.9	600.2	3,247.7
Insurance claims	(1,086.8)	(287.7)	(177.2)	(363.6)	(1,915.3)
Insurance claims recoverable from/(payable to) reinsurers	139.8	7.3	(8.1)	57.6	196.6
Net insurance claims	(947.0)	(280.4)	(185.3)	(306.0)	(1,718.7)
Commission expenses	(48.2)	(38.1)	(42.3)	(112.3)	(240.9)
Operating expenses before restructuring and one-off costs	(366.4)	(124.9)	(93.5)	(121.5)	(706.3)
Total expenses	(414.6)	(163.0)	(135.8)	(233.8)	(947.2)
Operating profit	314.8	141.8	64.8	60.4	581.8
Restructuring and one-off costs					(101.5)
Finance costs					(34.3)
Profit before tax					446.0

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
Underwriting profit	111.7	110.0	48.4	21.4	291.5
Loss ratio	64.3%	50.7%	50.2%	54.5%	58.1%
Commission ratio	3.3%	6.9%	11.4%	20.0%	8.1%
Expense ratio	24.8%	22.5%	25.3%	21.7%	23.9%
Combined operating ratio	92.4%	80.1%	86.9%	96.2%	90.1%

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2021 (audited).

	Motor	Home	Rescue and other personal lines	Commercial	Total Group
	£m	£m	£m	£m	£m
Goodwill	130.4	45.8	28.7	10.1	215.0
Assets held for sale	29.2	3.5	1.1	7.4	41.2
Other segment assets	6,467.2	750.1	268.4	1,566.7	9,052.4
Segment liabilities	(4,551.2)	(550.3)	(166.5)	(1,143.9)	(6,411.9)
Segment net assets	2,075.6	249.1	131.7	440.3	2,896.7

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

5. Net earned premium

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Gross earned premium:			
Gross written premium	**1,521.3**	1,556.5	3,171.6
Movement in unearned premium reserve	**39.7**	10.3	(3.6)
	1,561.0	1,566.8	3,168.0
Reinsurance premium paid and payable:			
Premium payable	**(51.4)**	(75.3)	(186.4)
Movement in reinsurance unearned premium reserve	**(37.6)**	(35.9)	(24.2)
	(89.0)	(111.2)	(210.6)
Total	**1,472.0**	1,455.6	2,957.4

6. Investment return

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Investment income:			
Interest income from:			
Debt securities	**42.7**	46.7	90.9
Cash and cash equivalents	**2.0**	0.1	0.2
Infrastructure debt	**2.8**	2.2	4.4
Commercial real estate loans	**3.6**	2.9	6.0
Interest income	**51.1**	51.9	101.5
Rental income from investment property	**7.8**	7.0	14.5
	58.9	58.9	116.0
Net realised (losses)/gains:			
AFS debt securities	**(0.2)**	6.8	7.9
Derivatives	**(69.4)**	79.7	(5.2)
Investment property	**–**	—	0.2
	(69.6)	86.5	2.9
Net unrealised gains/(losses):			
Impairment of loans and receivables	**–**	—	(2.1)
Derivatives	**65.0**	(87.0)	(8.1)
Investment property	**19.3**	10.0	37.6
Equity investments held at FVTPL	**(1.0)**	—	—
	83.3	(77.0)	27.4
Total	**72.6**	68.4	146.3

The table below analyses the realised and unrealised gains and losses on derivative instruments included in investment return.

	Realised 6 months 2022 £m unaudited	Unrealised 6 months 2022 £m unaudited	Realised 6 months 2021 £m unaudited	Unrealised 6 months 2021 £m unaudited
Derivative (losses)/gains:				
Foreign exchange forward contracts[1]	**(88.5)**	**(73.9)**	103.5	(82.0)
Associated foreign exchange risk	**8.2**	**160.4**	(19.6)	(3.1)
Net (losses)/gains on foreign exchange forward contracts	**(80.3)**	**86.5**	83.9	(85.1)
Interest rate swaps[1]	**11.8**	**61.4**	(7.0)	21.4
Associated interest rate risk on hedged items	**(0.9)**	**(82.9)**	2.8	(23.3)
Net gains/(losses) on interest rate derivatives	**10.9**	**(21.5)**	(4.2)	(1.9)
Total	**(69.4)**	**65.0**	79.7	(87.0)

6. Investment return continued

	Realised Full year 2021 £m audited	Unrealised Full year 2021 £m audited
Derivative losses:		
Foreign exchange forward contracts[1]	39.9	(42.5)
Associated foreign exchange risk	(22.8)	24.7
Net gains/(losses) on foreign exchange forward contracts	17.1	(17.8)
Interest rate swaps[1]	(26.3)	48.9
Associated interest rate risk on hedged items	4.0	(39.2)
Net (losses)/gains on interest rate derivatives	(22.3)	9.7
Total	(5.2)	(8.1)

Note:
1. All foreign exchange forward contracts are measured at fair value through the income statement.

7. Other operating income

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Revenue from vehicle recovery and repair services	**14.9**	10.0	19.7
Vehicle replacement referral income	**7.2**	5.3	13.1
Legal services income	**2.7**	3.8	7.2
Other income[1]	**5.7**	4.0	6.7
Total	**30.5**	23.1	46.7

Note:
1. Other income includes fee income from insurance intermediary services.

8. Net insurance claims

	Gross 6 months 2022 £m unaudited	**Reinsurance 6 months 2022 £m unaudited**	**Net 6 months 2022 £m unaudited**	Gross 6 months 2021 £m unaudited	Reinsurance 6 months 2021 £m unaudited	Net 6 months 2021 £m unaudited
Current accident year claims paid	**520.1**	**(0.1)**	**520.0**	373.6	(0.3)	373.3
Prior accident year claims paid	**550.4**	**(19.7)**	**530.7**	500.9	(39.7)	461.2
Movement in insurance liabilities	**(62.0)**	**(30.9)**	**(92.9)**	(60.1)	(17.3)	(77.4)
Total	**1,008.5**	**(50.7)**	**957.8**	814.4	(57.3)	757.1

	Gross Full year 2021 £m audited	Reinsurance Full year 2021 £m audited	Net Full year 2021 £m audited
Current accident year claims paid	1,058.6	(1.1)	1,057.5
Prior accident year claims paid	793.2	(88.7)	704.5
Movement in insurance liabilities	63.5	(106.8)	(43.3)
Total	1,915.3	(196.6)	1,718.7

Claims handling expenses for the period ended 30 June 2022 of £92.2 million (30 June 2021: £90.4 million, 31 December 2021: £188.4 million) have been included in the claims figures above.

9. Commission expenses

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Commission expenses	**101.1**	95.6	201.2
Expenses incurred under profit participations	**3.4**	11.0	39.7
Total	**104.5**	106.6	240.9

10. Operating expenses

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Staff costs[1]	**124.3**	134.2	268.8
IT and other operating expenses[1,2]	**91.9**	79.7	157.0
Marketing	**38.3**	48.0	112.0
Insurance levies	**51.9**	55.3	89.0
Depreciation, amortisation and impairment of intangible and fixed assets[3]	**55.6**	52.4	97.1
Loss on termination of property lease[4]	**–**	84.5	83.9
Total other operating expenses (including restructuring and one-off costs)	**362.0**	454.1	807.8
Of which restructuring and one-off costs[4]	**4.0**	91.5	101.5
Total excluding restructuring and one-off costs	**358.0**	362.6	706.3

Notes:

1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Includes right of use ("**ROU**") assets and property, plant and equipment. For the period ended 30 June 2022, there were no impairment charges (30 June 2021: £0.5 million which relates to impairment of intangible assets, 31 December 2021: £2.6 million of which, £2.1 million relates to impairment of intangible assets and £0.5 million relates to ROU property assets).
4. In 2021, U K Insurance Limited signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease. The loss on termination of property lease, related to the Bromley site was allocated to restructuring and one-off costs. The value of the fixed asset capitalised was £19.8 million.

11. Finance costs

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Interest expense on subordinated liabilities	**12.5**	16.6	33.6
Net interest received on interest rate swap[1]	**(2.2)**	(2.7)	(5.3)
Unrealised losses on interest rate swap[1]	**2.4**	3.1	5.8
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**(0.9)**	(1.5)	(3.0)
Interest expense on lease liabilities	**1.6**	1.6	3.2
Total	**13.4**	17.1	34.3

Note:

1. As described in note 21, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest on the notes for a floating rate. This was treated as a designated hedging instrument. On 8 December 2017, the Group redeemed £250 million nominal value of the notes and the hedging instrument was redesignated accordingly. On 31 July 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment was amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation. The remaining notes, with a nominal value of £250 million were redeemed in full on 27 April 2022.

12. Tax charge

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Current taxation:			
Charge for the period	**34.1**	59.3	102.6
Under/(over)-provision in respect of prior period	**–**	0.2	(8.3)
Total	**34.1**	59.5	94.3
Deferred taxation:			
Credit for the period	**(1.7)**	(1.8)	(1.1)
Under/(over)-provision in respect of prior period	**–**	(0.2)	9.1
Total	**(1.7)**	(2.0)	8.0
Tax charge for the period	**32.4**	57.5	102.3

13. Dividends and appropriations

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Amounts recognised as distributions to equity holders in the period:			
2021 final dividend of 15.1 pence per share paid on 17 May 2022	**198.9**	—	—
2021 interim dividend of 7.6 pence per share paid on 3 September 2021	**–**	—	101.9
2020 final dividend of 14.7 pence per share paid on 20 May 2021	**–**	198.9	198.9
	198.9	198.9	300.8
Coupon payments in respect of Tier 1 notes[1]	**8.3**	8.3	16.6
	207.2	207.2	317.4
Dividends:			
2022 interim dividend of 7.6 pence per share	**99.0**	—	—
2021 final dividend of 15.1 pence per share	**–**	—	199.4
2021 interim dividend of 7.6 pence per share	**–**	102.4	—

Note:

1. Coupon payments on the Tier 1 notes issued in December 2017 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid.

The interim dividend for the period ended 30 June 2022 has not been included as a liability in these financial statements. In compliance with PRA rules relating to Solvency II, the interim dividend is required to remain cancellable at any point prior to it being paid if prior to payment the regulated insurance companies within the Group cease, or would as a result of the dividend being paid cease, to have capital resources equal to or in excess of their solvency capital requirement. There is no intention for these rights to be exercised other than where required to do so by the PRA or for regulatory capital purposes.

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid by £1.3 million (30 June 2021: £1.1 million, 31 December 2021: £1.7 million).

14. Earnings per share

Earnings per share is calculated by dividing earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the year.

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares.

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Company less coupon payments in respect of Tier 1 notes by the weighted average number of Ordinary Shares during the period, excluding Ordinary Shares held as employee trust shares, adjusted for the dilutive potential Ordinary Shares. The Company has share options and contingently issuable shares as categories of dilutive potential Ordinary Shares.

	6 months 2022	6 months 2021	Full year 2021
	£m	£m	£m
	unaudited	unaudited	audited
Earnings attributable to the owners of the Company	**145.7**	203.8	343.7
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of earnings per share	**137.4**	195.5	327.1
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	**1,310.5**	1,345.7	1,335.8
Effect of dilutive potential of share options and contingently issuable shares (millions)	**20.3**	20.3	20.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,330.8**	1,366.0	1,356.6
Basic earnings per share (pence)	**10.5**	14.5	24.5
Diluted earnings per share (pence)	**10.3**	14.3	24.1

On 8 March 2022, the Group announced that the Board had approved a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, for which an initial tranche of up to £50 million was completed in H1 2022. The Group has repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million as reflected in retained earnings (including related transaction costs). On 18 July 2022, the Group announced in its H1 2022 trading update, that the Board had decided not to launch the second £50 million tranche of the £100 million share buyback programme announced earlier in the year.

On 8 March 2021, the Group announced a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101.0 million (including related transaction costs).

After each share buyback, the shares were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount to their nominal value as required by the Companies Act 2006.

15. Net asset value per share and return on equity

Net asset value per share is calculated as total shareholders' equity (which excludes Tier 1 notes) divided by the number of Ordinary Shares at the end of the period excluding shares held by employee share trusts.

Tangible net asset value per share is calculated as total shareholders' equity less goodwill and other intangible assets divided by the number of Ordinary Shares at the end of the period, excluding shares held by employee share trusts.

The table below analyses net asset and tangible net asset value per share.

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
Net assets	**2,265.2**	2,550.2
Goodwill and other intangible assets[1]	**(832.4)**	(822.5)
Tangible net assets	**1,432.8**	1,727.7
Number of Ordinary Shares (millions)	**1,311.4**	1,330.7
Shares held by employee trusts (millions)	**(12.2)**	(13.4)
Closing number of Ordinary Shares (millions)	**1,299.2**	1,317.3
Net asset value per share (pence)	**174.4**	193.6
Tangible net asset value per share (pence)	**110.3**	131.2

Note:

1. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets primarily comprise software development costs.

Return on equity

The table below details the calculation of return on equity.

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Earnings attributable to the owners of the Company	**145.7**	203.8	343.7
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Profit for the calculation of return on equity	**137.4**	195.5	327.1
Annualised profit for the calculation of return on equity[1]	**274.8**	391.0	327.1
Opening shareholders' equity	**2,550.2**	2,699.7	2,699.7
Closing shareholders' equity	**2,265.2**	2,606.3	2,550.2
Average shareholders' equity	**2,407.7**	2,653.0	2,625.0
Return on equity for the period	**5.7%**	7.4%	12.5%
Return on equity annualised	**11.4%**	14.7%	12.5%

Note:

1. Profit has been annualised using the profit for the periods ended 30 June 2022 and 30 June 2021.

16. Reinsurance assets

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
Reinsurers' share of general insurance liabilities	**1,201.3**	1,169.6
Impairment provision[1]	**(38.3)**	(37.5)
Total excluding reinsurers' unearned premium reserves	**1,163.0**	1,132.1
Reinsurers' unearned premium reserve	**42.1**	79.7
Total	**1,205.1**	1,211.8

Note:

1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where one or more reinsurers' credit rating has been significantly downgraded and it may have difficulty in meeting its obligations.

17. Financial investments

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
AFS debt securities		
Corporate	**3,442.7**	4,006.9
Supranational	**16.6**	14.0
Local government	**28.0**	28.1
Sovereign	**64.4**	35.6
Total	**3,551.7**	4,084.6
HTM debt securities		
Corporate	**98.2**	91.2
Total debt securities	**3,649.9**	4,175.8
Total debt securities		
Fixed interest rate[1]	**3,636.4**	4,158.3
Floating interest rate	**13.5**	17.5
Total	**3,649.9**	4,175.8
Loans and receivables		
Infrastructure debt	**244.4**	250.8
Commercial real estate loans	**199.6**	200.8
Total loans and receivables	**444.0**	451.6
Equity investments[2]	**14.5**	6.2
Total	**4,108.4**	4,633.6

Notes:

1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 30 June 2022 was £1,052.0 million (31 December 2021: £1,005.6 million).
2. Equity investments consist of quoted shares and insurtech-focused equity funds which are valued based on external valuation reports received from a third-party fund manager.

18. Cash and cash equivalents and borrowings

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
Cash at bank and in hand	**125.1**	162.8
Short term deposits with credit institutions[1]	**652.1**	792.9
Cash and cash equivalents	**777.2**	955.7
Bank overdrafts[2]	**(95.9)**	(59.2)
Cash and bank overdrafts[3]	**681.3**	896.5

Notes:

1. This represents money market funds.
2. Bank overdrafts represent short-term timing differences between transactions posted in the records of the Group and transactions flowing through the accounts at the bank.
3. Cash and bank overdrafts total is included for the purposes of the condensed consolidated cash flow statement.

The effective interest rate on short-term deposits with credit institutions for the period ended 30 June 2022 was 0.50% (2021: 0.16%) and average maturity was 10 days (2021: 10 days).

19. Share capital

Issued and fully paid: equity shares	30 Jun 2022			31 Dec 2021		
	Number of shares	**Share capital**	**Transfer to capital redemption reserve[4]**	Number of shares	Share capital	Transfer to capital redemption reserve[4]
Ordinary Shares of 10 10/11 pence each[1]	**millions**	**£m**	**£m**	millions	£m	£m
At 1 January	**1,330.7**	**145.2**	**4.8**	1,364.6	148.9	1.1
Shares cancelled following buyback[2,3,4]	**(19.3)**	**(2.1)**	**2.1**	(33.9)	(3.7)	3.7
At 30 June 2022 (unaudited)/31 December 2021 (audited)	**1,311.4**	**143.1**	**6.9**	1,330.7	145.2	4.8

Notes:

1. The shares have full voting, dividend and capital distribution rights (including on wind-up) attached to them; these do not confer any rights of redemption.
2. On 8 March 2022, the Group announced that the Board had approved a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, for which an initial tranche of up to £50 million was completed in H1 2022. The Group has repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million as reflected in retained earnings (including related transaction costs). On 18 July 2022, the Group announced in its H1 2022 trading update, that the Board had decided not to launch the second £50 million tranche of the £100 million share buyback programme announced earlier in the year.
3. On 8 March 2021, the Group announced a share buyback programme of Ordinary Shares for an aggregate purchase price of up to £100 million, which was completed on 15 November 2021 in accordance with its terms. Across the programme, the Group repurchased and cancelled 33,838,593 ordinary shares for an aggregate consideration of £101.0 million (including related transaction costs).
4. After each share buyback, the shares were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount to their nominal value as required by the Companies Act 2006.

20. Tier 1 notes

	30 Jun 2022	31 Dec 2021
	£m	£m
	unaudited	audited
Tier 1 notes	**346.5**	346.5

On 7 December 2017, the Group issued £350 million of fixed rate perpetual Tier 1 notes with a coupon rate of 4.75% per annum.

The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves.

The Tier 1 notes are treated as a separate category within equity and the coupon payments are recognised outside of the profit after tax result and directly in shareholders' equity.

The Group has the option to cancel the coupon payment. Cancellation becomes mandatory if: the Solvency condition[1] is not met at the time of, or following, coupon payment; there is non-compliance with the SCR or the minimum capital requirement; the Group has insufficient distributable reserves; or the relevant regulator requires the coupon payment to be cancelled.

Note:

1. All payments shall be conditional upon the Group being solvent at the time of payment and immediately after payment. The Issuer will be solvent if (i) it is able to pay its debts owed to senior creditors as they fall due and (ii) its assets exceed its liabilities.

21. Subordinated liabilities

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
£250 million 9.25% subordinated Tier 2 notes due 2042	–	255.2
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.4**	258.4
Subordinated Tier 2 notes	**258.4**	513.6

The 2032 and 2042 notes are unsecured and subordinated obligations of the Group and rank pari passu and without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all other senior creditors have been met and will rank at least pari passu with the claims of holders of other Tier 2 capital.

£250 million 9.25% subordinated Tier 2 notes due 2042

Subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013. This was treated as a designated hedging instrument.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The designated hedging instrument was adjusted accordingly.

During 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 'Financial Instruments: Recognition and Measurement' and, under the rules of the standard, the accumulated hedging adjustment was amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

The remaining notes, with a nominal value of £250 million and accrued interest of £11.6 million, were redeemed in full on 27 April 2022 when the Group had its first option to repay. Associated transaction costs were £0.1 million.

£260 million 4.0% subordinated Tier 2 notes due 2032

On 5 June 2020, the Group issued subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right.

22. Insurance liabilities

	30 Jun 2022 £m unaudited	31 Dec 2021 £m audited
Insurance liabilities	**3,618.5**	3,680.5

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,762.0	(842.8)	1,919.2
Incurred but not reported	777.0	(182.5)	594.5
Claims handling provision	78.0	—	78.0
At 1 January 2021 (audited)	3,617.0	(1,025.3)	2,591.7
Cash paid for claims settled in the year	(1,851.8)	89.8	(1,762.0)
Increase/(decrease) in liabilities:			
Arising from current-year claims	2,142.9	(166.1)	1,976.8
Arising from prior-year claims	(227.6)	(30.5)	(258.1)
At 31 December 2021 (audited)	3,680.5	(1,132.1)	2,548.4
Claims reported	2,840.0	(885.2)	1,954.8
Incurred but not reported	761.8	(246.9)	514.9
Claims handling provision	78.7	—	78.7
At 31 December 2021 (audited)	3,680.5	(1,132.1)	2,548.4
Cash paid for claims settled in the year	**(1,070.5)**	**19.8**	**(1,050.7)**
Increase/(decrease) in liabilities:			
Arising from current-year claims	**1,156.4**	**(50.7)**	**1,105.7**
Arising from prior-year claims	**(147.9)**	**–**	**(147.9)**
At 30 June 2022 (unaudited)	**3,618.5**	**(1,163.0)**	**2,455.5**
Claims reported	**2,940.5**	**(937.3)**	**2,003.2**
Incurred but not reported	**599.4**	**(225.7)**	**373.7**
Claims handling provision	**78.6**	**–**	**78.6**
At 30 June 2022 (unaudited)	**3,618.5**	**(1,163.0)**	**2,455.5**

Movement in prior-year net claims liabilities by operating segment

	6 months 2022 £m unaudited	6 months 2021 £m unaudited	Full year 2021 £m audited
Motor	**(74.0)**	(100.7)	(127.1)
Home	**(20.9)**	(17.5)	(45.8)
Rescue and other personal lines	**(16.6)**	(2.4)	(23.8)
Commercial	**(36.4)**	(32.3)	(61.4)
Total	**(147.9)**	(152.9)	(258.1)

23. Fair value

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.
- Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include AFS debt security assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments.
- Level 3 fair value measurements used for investment properties, HTM debt securities, infrastructure debt, commercial real estate loans and unquoted equity investments are those derived from a valuation technique that includes inputs for the asset that are unobservable.

Comparison of carrying value to fair value of financial instruments and assets where fair value is disclosed

At 30 June 2022 (unaudited)	Notes	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:						
Investment property		**336.4**	—	—	336.4	**336.4**
Derivative assets		**76.8**	—	76.8	—	**76.8**
AFS debt securities	17	**3,551.7**	64.4	3,487.3	—	**3,551.7**
Equity investments	17	**14.5**	—	0.8	13.7	**14.5**
Other financial assets:						
HTM debt securities	17	**98.2**	—	30.3	63.2	**93.5**
Infrastructure debt	17	**244.4**	—	—	240.0	**240.0**
Commercial real estate loans	17	**199.6**	—	—	197.3	**197.3**
Total		**4,521.6**	**64.4**	**3,595.2**	**850.6**	**4,510.2**
Liabilities held at fair value:						
Derivative liabilities		**74.8**	—	74.8	—	**74.8**
Other financial liabilities:						
Subordinated liabilities	21	**258.4**	—	226.4	—	**226.4**
Total		**333.2**	**–**	**301.2**	**–**	**301.2**

At 31 December 2021 (audited)	Notes	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:						
Investment property		317.0	—	—	317.0	317.0
Derivative assets		35.9	—	35.9	—	35.9
AFS debt securities	17	4,084.6	35.6	4,049.0	—	4,084.6
Equity investments	17	6.2	—	—	6.2	6.2
Other financial assets:						
HTM debt securities	17	91.2	—	24.3	69.1	93.4
Infrastructure debt	17	250.8	—	—	257.8	257.8
Commercial real estate loans	17	200.8	—	—	198.3	198.3
Total		4,986.5	35.6	4,109.2	848.4	4,993.2
Liabilities held at fair value:						
Derivative liabilities		19.5	—	19.5	—	19.5
Other financial liabilities:						
Subordinated liabilities	21	513.6	—	543.7	—	543.7
Total		533.1	—	563.2	—	563.2

23. Fair value continued

Differences arise between carrying value and fair value where the measurement basis of the asset or liability is not fair value (for example; assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- insurance and other receivables;
- cash and cash equivalents;
- borrowings; and
- trade and other payables, including insurance payables.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and unquoted equity investments. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6.

During 2021, there was one HTM debt security with fair value of £10.7 million transferred from level 3 to level 2 due to market-observable valuation inputs. There were no other changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2021.

The table below shows the unobservable inputs used by the Group in the fair value measurement of its investment property.

At 30 June 2022 (unaudited)	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	336.4[1]	Income capitalisation	Equivalent yield	3.41% - 7.38% (average 4.48%)
			Estimated rental value per square foot	£5.50 - £35.00 (average £13.39)

Note:

1. The methodology of valuation reflects commercial property held within U K Insurance Limited.

The table below analyses the movement in assets carried at fair value classified as level 3 in the fair value hierarchy.

	Note	Investment property £m	Unquoted equity investments £m
At 1 January 2022		**317.0**	**6.2**
Additions at cost		**–**	**7.1**
Increase/(reduction) in fair value in the period through profit and loss	6	**19.3**	**(0.1)**
Foreign exchange movement		**–**	**0.5**
Capitalised expenditure		**0.1**	**–**
At 30 June 2022 (unaudited)		**336.4**	**13.7**

24. Related parties

Transactions between the Group's subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed.

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the period ended 30 June 2022 (2021: £nil).

Full details of the Group’s related party transactions for the year ended 31 December 2021 are included on page 238 of the Annual Report & Accounts 2021.

GLOSSARY

Term	Definition and explanation
Actuarial best estimate ("ABE")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Adjusted gross written premium	An amended gross written premium number that identifies the impact of a contractual change to Green Flag premium such that a portion of income that was previously included in gross written premium is now included in service fees.
Adjusted solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement, excludes the Tier 2 subordinated debt, which was redeemed on 27 April 2022.
Assets under management ("AUM")	This represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes. In addition, the subordinated liabilities in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Carbon emissions: **Scope 1** **Scope 2** **Scope 3 under our direct control** **Total scope 3**	Scope 1 – covers direct emissions from owned or controlled sources, including fuels used in office buildings, accident repair centres and owned vehicles. Scope 2 – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling for office buildings and accident repair centres. Scope 3 under our direct control – includes indirect emissions that occur in the Group's value chain, under its direct control, such as waste disposal and business travel. Total Scope 3 – includes all other indirect emissions that occur in the Group's value chain and purchased goods and services, excluding investments.
Claims frequency	The number of claims divided by the number of policies per year.
Combined operating ratio	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and operating expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting. **Normalised combined operating ratio** adjusts loss and commission ratios for weather and changes to the Ogden discount rate. **Current-year combined operating ratio** is calculated using the combined operating ratio less movement in prior-year reserves. (See alternative performance measures.)
Commission ratio	The ratio of commission expense divided by net earned premium. (See alternative performance measures.)
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years and claims relating to major weather events. (See alternative performance measures.)
Expense ratio	The ratio of operating expenses divided by net earned premium. (See alternative performance measures.)
Fair value through profit or loss ("FVTPL")	A financial asset or liability where at each balance sheet date the asset or liability is re-measured to fair value and any movement in that fair value is taken directly to the income statement.
Finance costs	The cost of servicing the Group's external borrowings and including the interest on right-of-use assets.
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Gross written premium	The total premiums from insurance contracts that were incepted during the period.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported.
In-force policies	The number of policies on a given date that are active and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average AUM. The average AUM derives from the period's opening and closing balances for the total Group. (See alternative performance measures.)
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See alternative performance measures.)

Term	Definition and explanation
Loss ratio	Net insurance claims divided by net earned premium. (See alternative performance measures.)
Management's best estimate ("MBE")	These reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal ABE.
Minimum capital requirement ("MCR")	The minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless the insurer is able to meet the MCR within a short period of time.
Net asset value	The difference between the Group's total assets and total liabilities, calculated by subtracting total liabilities (including Tier 1 notes) from total assets.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net investment income yield	This is calculated in the same way as investment income yield but includes the cost of hedging. (See alternative performance measures.)
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs. (See alternative performance measures.)
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and changes to the Ogden discount rate. **Current-year normalised operating profit** is calculated using the normalised operating profit adjusted for prior-year reserve movements. (See alternative performance measures.)
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle certain large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Restructuring costs	These are costs incurred in respect of the business activities where the Group has a constructive obligation to restructure its activities.
Return on equity	This is calculated by dividing the profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
Return on tangible equity ("RoTE")	This is adjusted profit after tax divided by the Group's average shareholders' equity less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19%. (See alternative performance measures.)
Science-Based Targets ("SBT")	Science-Based Targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as "science-based" if it is developed in line with the scale of reductions required to curb a global temperature rise to well below 2°C above pre-industrial levels and ideally to limit to a 1.5°C rise.
Solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Solvency capital requirement ("SCR")	The SCR is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. The Group uses a partial internal model to determine the SCR.
Tangible equity	This shows the equity excluding Tier 1 notes and intangible assets (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See alternative performance measures.)
Tangible net assets per share	This shows the amount of tangible equity allocated to each ordinary share (for comparability with companies which have not acquired businesses or capitalised intangible assets). (See alternative performance measures.)
Underwriting result profit/(loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restructuring and one-off costs.

APPENDIX A – ALTERNATIVE PERFORMANCE MEASURES

The Group has identified Alternative Performance Measures ("**APMs**") in accordance with the European Securities and Markets Authority's published Guidelines. The Group uses APMs to improve comparability of information between reporting periods and reporting segments, by adjusting for either uncontrollable or one-off costs which impact the IFRS measures, to aid the user of this report in understanding the activity taking place across the Group. These APMs are contained within the main narrative sections of this document, outside of the financial statements and notes, and may not necessarily have standardised meanings for ease of comparability across peer organisations.

Further information is presented below, defined in the glossary and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 of the condensed consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the condensed consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements .

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Adjusted gross written premium	Gross written premium	Adjusted gross written premium is defined in the glossary and reconciled in Appendix A.	This measure identifies the impact of a contractual change to Green Flag Rescue premium such that a portion of income that was previously included in gross written premium is now included in service fees. The measure supports comparability with prior period gross written premium. This measure was introduced with effect from 1 January 2022.
Adjusted solvency capital ratio	This measure is based on the Group's Solvency II balance sheet and therefore there is no IFRS equivalent	Adjusted solvency capital ratio is defined in the glossary and reconciled in Appendix A.	This is a measure that shows the Group's solvency ratio excluding the Tier 2 subordinated debt which was redeemed on 27 April 2022.
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary and reconciled in note 4.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Commission ratio	Commission expense	Commission ratio is defined in the glossary and reconciled in note 4.	Expresses commission expense, in relation to net earned premium.
Current-year attritional loss ratio	Net insurance claims	Current-year attritional loss ratio is defined in the glossary and is reconciled to the loss ratio (discussed below) in the ratio analysis by division	Expresses claims performance in the current accident year in relation to net earned premium.
Current-year combined operating ratio	Profit before tax	Current-year combined operating ratio is defined in the glossary and is reconciled in the ratio analysis by division table in the CFO review.	This is a measure of underwriting profitability, excluding the effect of prior-year reserve movements.
Expense ratio	Total expenses	Expense ratio is defined in the glossary and reconciled in note 4.	Expresses underwriting and policy expenses in relation to net earned premium.
Investment income yield	Investment income	Investment income yield is defined in the glossary and is reconciled in Appendix A.	Expresses a relationship between the investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.
Investment return yield	Investment return	Investment return yield is defined in the glossary and is reconciled in Appendix A.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Loss ratio	Net insurance claims	Loss ratio is defined in the glossary and reconciled in note 4.	Expresses claims performance in relation to net earned premium.
Net investment income yield	Investment income	Net investment income yield is defined in the glossary and is reconciled in Appendix A.	Expresses a relationship between the net investment income and the associated opening and closing assets adjusted for portfolio hedging instruments.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Normalised combined operating ratio	Profit before tax	Combined operating ratio and normalised combined operating ratio are defined in the glossary and reconciled in Appendix A.	This is a measure of underwriting profitability excluding the effects of weather, Ogden discount rate changes and restructuring and one-off costs. It also excludes non-insurance income. A ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Operating expenses	Total expenses	Operating expenses are defined in the glossary and reconciled in note 4.	This shows the expenses relating to business activities excluding restructuring and one-off costs.
Operating profit	Profit before tax	Operating profit is defined in the glossary and reconciled in note 4.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Return on tangible equity	Return on equity	Return on tangible equity is defined in the glossary and is reconciled in Appendix A.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Tangible equity	Equity	Tangible equity is defined in the glossary and is reconciled in Appendix A.	This shows the equity excluding Tier 1 notes and intangible assets for comparability with companies which have not acquired businesses or capitalised intangible assets.
Tangible net asset value per share	Net asset value per share	Tangible net assets per share is defined in the glossary and reconciled in note 15.	This shows the equity excluding Tier 1 notes and intangible assets per share for comparability with companies which have not acquired businesses or capitalised intangible assets.
Underwriting profit	Profit before tax	Underwriting profit is defined in the glossary and is reconciled in note 4.	This shows underwriting performance calculated as net earned premium less net claims and operating expenses, excluding restructuring and one-off costs.

Investment income and return yields[1]

	Notes[2]	H1 2022 £m	H1 2021 £m
Investment income	6	**58.9**	58.9
Hedging to a sterling floating rate basis[3]	6	**(4.4)**	(7.3)
Net investment income		**54.5**	51.6
Net realised and unrealised gains excluding hedging		**18.1**	16.8
Total investment return	6	**72.6**	68.4
Opening investment property		**317.0**	292.1
Opening financial investments		**4,633.6**	4,681.4
Opening cash and cash equivalents		**955.7**	1,220.1
Opening borrowings		**(59.2)**	(51.9)
Opening derivatives asset[4]		**14.3**	8.0
Opening investment holdings		**5,861.4**	6,149.7
Closing investment property		**336.4**	302.1
Closing financial investments	17	**4,108.4**	4,815.5
Closing cash and cash equivalents	18	**777.2**	859.5
Closing borrowings	18	**(95.9)**	(54.3)
Closing derivatives asset/(liability)[4]		**1.5**	(52.8)
Closing investment holdings		**5,127.6**	5,870.0
Average investment holdings[5]		**5,494.5**	6,009.9
Investment income yield[1] (annualised)		**2.1%**	2.0%
Net investment income yield[1] (annualised)		**2.0%**	1.7%
Investment return yield[1] (annualised)		**2.6%**	2.3%

Notes:

1. See glossary for definitions.
2. See notes to the condensed consolidated financial statements.
3. Includes net realised and unrealised gains/(losses) on derivatives in relation to AUM.
4. See footnote 1 (Investment holdings table).
5. Mean average of opening and closing balances.

Adjusted gross written premium

	Rescue £m	Of which: Green Flag direct £m	Total Rescue and other personal lines £m	Total Group £m	Of which: direct own brands £m
H1 2022					
Gross written premium	**75.8**	**38.7**	**186.3**	**1,521.3**	**1,015.8**
Effect of service fees recognised as other income	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**
Adjusted gross written premium	**77.6**	**40.5**	**188.1**	**1,523.1**	**1,017.6**
Q2 2022					
Gross written premium	**39.7**	**20.5**	**98.7**	**788.1**	**514.4**
Effect of service fees recognised as other income	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Adjusted gross written premium	**40.4**	**21.2**	**99.4**	**788.8**	**515.1**

Adjusted solvency capital ratio[1]

	31 Dec 2021 £bn
Total eligible own funds	**2.38**
Less: Tier 2 subordinated debt which was redeemed on 27 April 2022	**(0.25)**
Add back: ineligible Tier 3 capital	**0.03**
	2.16
Solvency capital requirement	**1.35**
Adjusted solvency capital ratio	**160 %**

Note:

1. See glossary for definition.

Normalised combined operating ratio[1]

	Home H1 2022	Home H1 2021	**Commercial H1 2022**	Commercial H1 2021	**Total H1 2022**	Total H1 2021
Loss ratio	**57.1%**	47.0%	**48.9%**	49.0%	**65.1%**	52.0%
Commission ratio	**5.7%**	5.8%	**19.8%**	19.8%	**7.1%**	7.3%
Expense ratio	**23.2%**	26.2%	**21.0%**	21.4%	**24.3%**	24.9%
Combined operating ratio	**86.0%**	79.0%	**89.7%**	90.2%	**96.5%**	84.2%
Effect of weather						
Loss ratio	**1.8%**	7.8%	**(1.5%)**	3.8%	**–%**	2.2%
Commission ratio	**(0.3%)**	(0.6%)	**–**	—	**–%**	(0.1%)
Combined operating ratio normalised for weather	**87.5%**	86.2%	**88.2%**	94.0%	**96.5%**	86.3%

Note:

1. See glossary for definition.

Operating expenses[1]

	Note[2]	H1 2022 £m	H1 2021 £m
Operating expenses (including restructuring and one-off costs)	10	**362.0**	454.1
Less: restructuring and one-off costs	10	**(4.0)**	(91.5)
Operating expenses	10	**358.0**	362.6

Notes:

1. See glossary for definition.
2. See notes to the condensed consolidated financial statements.

Return on tangible equity[1]

	H1 2022 £m	H1 2021 £m
Profit before tax	**178.1**	261.3
Add back restructuring and other one-off costs	**4.0**	91.5
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)
Adjusted profit before tax	**173.8**	344.5
Tax charge (2022 and 2021 UK standard tax rate of 19%)	**(33.0)**	(65.5)
Adjusted profit after tax	**140.8**	279.0
Annualised adjusted profit after tax	**281.6**	558.0
Opening shareholders' equity	**2,550.2**	2,699.7
Opening goodwill and other intangible assets	**(822.5)**	(786.8)
Opening shareholders' tangible equity	**1,727.7**	1,912.9
Closing shareholders' equity	**2,265.2**	2,606.3
Closing goodwill and other intangible assets	**(832.4)**	(807.6)
Closing shareholders' tangible equity	**1,432.8**	1,798.7
Average shareholders' tangible equity[2]	**1,580.3**	1,855.8
Return on tangible equity annualised	**17.8 %**	30.1 %

Notes:

1. See glossary for definition.
2. Mean average of opening and closing balances.

ADDITIONAL INFORMATION

We confirm that to the best of our knowledge:

1. the condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit or loss of Direct Line Insurance Group plc and the undertakings included in the consolidation taken as a whole as required by Disclosure and Transparency Rule 4.2.4R;
2. the interim management report includes a fair review of the information required by:

- Disclosure and Transparency Rule 4.2.7R being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Disclosure and Transparency Rule 4.2.8R being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period, and any changes in the related parties transactions described in the last Annual Report & Accounts that could do so.

Signed on behalf of the Board

PENNY JAMES CHIEF EXECUTIVE OFFICER	**NEIL MANSER** CHIEF FINANCIAL OFFICER
1 August 2022	1 August 2022

LEI: 213800FF2R23ALJQOP04

INDEPENDENT REVIEW REPORT TO DIRECT LINE INSURANCE GROUP PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 24.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

London, UK

1 August 2022