7 September 2023

DIRECT LINE INSURANCE GROUP PLC
HALF YEAR REPORT 2023 (UNAUDITED)

JON GREENWOOD, ACTING CEO OF DIRECT LINE GROUP, COMMENTED

"Over the last six months we have taken decisive action to put the Group back on a more stable footing. In March, we set out that our key priorities were to restore capital resilience, to improve Motor performance and to maintain the performance of our non-Motor businesses.

"The proposed sale of the brokered commercial insurance business that we announced yesterday addresses the first, at the same time as focusing our strategy on retail personal lines and small business commercial customers. Its impact is estimated to increase the Group's solvency ratio on a pro forma basis by approximately 45 percentage points. It also crystallises an attractive valuation for a business we have turned around over the last ten years, but one that ultimately has a different trading model and operates in a different part of the UK insurance market to the rest of the Group.

"Our second priority this year has been to improve margins in Motor. We have made good progress and with increased pricing together with other underwriting actions, delivered gross written premium growth of 7% and we now believe that we are underwriting profitably, consistent with a 10% net insurance margin. This has taken longer than expected and will take time to flow through into reported earnings.

"The underlying performance of our non-Motor businesses has remained resilient and benefited from relatively benign weather conditions so far in 2023. Excluding Motor, the Group delivered gross written premium and associated fees growth of 12% and a net insurance margin of 12.2%.

Although the personal lines market continues to be challenging, we are taking the actions necessary to set the Group up for improved performance."

Results summary

	H1 2023 £m	H1 2022 £m restated[1]	Change £m
Gross written premium and associated fees - ongoing operations[2,3]	**1,615.2**	1,470.5	9.8%
Insurance service result – ongoing operations[2]	**(93.4)**	166.5	(259.9)
Net insurance margin - ongoing operations[2,3]	**(6.4%)**	11.3%	(17.7pts)
Operating (loss)/profit - ongoing operations[2,3]	**(78.3)**	197.0	(275.3)
Loss before tax	**(76.3)**	(11.1)	(65.2)
Operating return on tangible equity annualised[2]	**(14.6%)**	18.9%	(33.5pts)
Basic loss per share (pence)	**(4.6)**	(0.3)	(4.3)
Dividend per share – interim (pence)	**0.0**	7.6	(100.0%)
	30 Jun 2023	31 Dec 2022	Change
In-force policies - ongoing operations (thousands)[2,4]	**9,364**	9,674	(3.2%)
Solvency capital ratio[5]	**147%**	147%	—

Financial summary

These results are reported under the IFRS 17 accounting standard and prior-year comparisons have been restated accordingly.

Gross written premium and associated fees increased by 9.8% to £1,615 million, as growth in Commercial and rate increases implemented to improve Motor written margins more than offset a 3.2% reduction in in-force policies across H1.

The Group's net insurance margin for the period was minus 6.4% and was adversely affected by the earn through of Motor policies written during 2022 and continued high claims inflation. The net insurance margin excluding Motor was 12.2% supported by resilient underlying results across Home, Commercial and Rescue.

Group operating loss for ongoing operations in the first half was £78 million, a reduction of £275 million from the first half of 2022 profit as a result of lower earnings in Motor.

Loss before tax of £76 million in H1 2023 was a £65 million increase year on year, with the reduction in operating profit partially offset by valuation movements on the Group's investment portfolio. In 2022 we saw a large negative fair value movement whereas the first half of 2023 has been more stable following the de-risking of some of the Group's investment portfolio.

CEO appointment

We announced last week that Adam Winslow is to be appointed as CEO of the Group, subject to regulatory approval. Adam has deep expertise in UK general insurance market and significant international experience spanning two decades. Adam is expected to join in the first quarter of 2024.

Capital and dividends

The Group's solvency capital coverage ratio of 147% was in line with year end as continued management actions and organic capital generation in Home, Commercial and Rescue were offset by Motor performance. The proposed sale of our brokered commercial insurance business ("**NIG**") is expected to increase the Group's pro-forma solvency capital ratio by approximately 45 percentage points.

The Board understands the importance of dividends to shareholders and will aim to restart dividends once two conditions are met. First, an improvement in the capital coverage at the upper end of our agreed range and secondly, a return to organic capital generation in Motor. Whilst the first condition would be met through the sale of NIG, for the second condition the Board will assess the performance of Motor over the second half of the year to ensure that actual performance is consistent with pricing assumptions.

Outlook

Operating profit in 2023 is expected to continue to be adversely affected by the earn through of previously written Motor business. The outlook for Motor claims inflation remains in line with our assumption of high single digits, however the opportunity for prior-year reserve releases in the short-term remains low given this inflationary backdrop.

Looking forward, the improved Motor margins now being achieved should provide a platform to support an improvement in operating profit into 2024.

The Group has taken decisive action to improve its financial position and continues to have an ambition over time to generate a net insurance margin of above 10%, normalised for weather.

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Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Ongoing operations – the Group has excluded a number of Rescue and other personal lines partnerships from its ongoing operations results. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, and which the Group has already indicated that it will not be seeking to renew. Relevant prior-year data has been restated accordingly. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
3. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
4. In-force policies as at 31 December 2022 have been restated to remove 14,500 Commercial policies that were previously included in the reported amounts in error.
5. Estimates based on the Group's Solvency II partial internal model.

CEO REVIEW

Our priorities in the first half were to restore the resilience of our balance sheet, improve our Motor margins and maintain the performance of our other businesses. We have made significant progress towards addressing all of these.

First, the proposed sale of NIG we have announced is forecast to improve the Group's solvency capital ratio significantly, assuming the transaction, which is subject to shareholder approval, completes. We estimate the proposed sale would increase our solvency capital ratio by approximately 45 percentage points.

Secondly, we continued to take pricing actions in Motor and together with other underwriting actions this has improved our margins. We believe we are now underwriting profitably, consistent with our ambition of a net insurance margin of above 10%, although it will take time for this to be reflected in reported earnings.

Finally, the performance of our other businesses has remained resilient. We also benefited from relatively benign weather conditions so far in 2023.

Overall, whilst earnings in the first half reflect the impact of the difficult trading environment of 2022, we have made good progress in restoring business performance to support improved earnings looking forward.

Proposed sale of the brokered commercial insurance business

We have announced that we have agreed to sell our NIG business to RSA Insurance Limited for an upfront consideration of £520 million and an earn out of up to £30 million. In addition, we estimate we will release capital of £270 million over time, with approximately £170 million released upfront when the transaction is approved by shareholders. Full details of the payment timetable are included in the transaction announcements.

NIG has been a part of the Group since 2003 with its success driven by its strong and extensive partnerships with brokers, delivering tailored insurance propositions for UK SME customers. Since the IPO in 2012, we have improved the operational and financial performance of NIG including improving technology, introducing new pricing and underwriting tools and developing new broker relationships. Recent performance demonstrates the success of this strategy with premium growth and improved margins.

With the success of the operational turnaround of NIG and given the differences in the trading model versus our other businesses, we believe it is an appropriate time to sell and crystallise the value that has been created. Following the sale, we will be fully focused on retail personal lines and commercial small business customers where our brands, claims management and technology give us the opportunity to outperform for our customers.

Motor margins improving

Our primary focus in Motor for the first half of the year has been to improve margins by ensuring our pricing reflects latest claims inflation whilst, at the same time, launching new cost-effective products for customers. We have made good progress and believe we are now underwriting at levels consistent with our ambition of a net insurance margin above 10%. There are four key areas we have focused on.

1. Pricing – we have applied significant rate increases over the first half of 2023, which have driven a 25% increase in our renewal average premiums.
2. Underwriting and claims – we have made good progress by taking targeted action on our underwriting footprint, improving our application fraud controls and optimising renewal discounts. We have also continued to look for opportunities to mitigate claims inflation where we can including expanding our own managed repair network with the acquisition of our 23rd accident repair centre.
3. Product – we have launched an Essentials motor product under the Churchill brand which is designed to offer a more cost effective form of cover to meet the needs of certain customers. Initial take up has been encouraging and we aim shortly to launch an Essentials motor product under the Direct Line brand.
4. Team – we have strengthened the Motor team through deploying additional resource into pricing as well as several key hires in leadership and trading positions.

These actions take time to earn through into reported margins and are not reflected in our first half results. We expect these actions to support an improvement in operating profit into 2024.

Non-motor businesses delivered resilient performance

Having delivered a strong performance in 2022, normalised for weather, the focus for the rest of the Group has been on maintaining performance. Outside of Motor the Group delivered a net insurance margin of 12.2% whilst delivering gross written premium and associated fees growth of 12.2%.

Home

In Home, our focus was on maintaining margins and so we took pricing action in order to offset the impact of claims inflation, with rate increases delivering 9% year-on year average premium growth[1], with in-force policies reducing 1.5% compared to year-end.

Net insurance margin was 13.0%. Mild weather in the first half was partially offset by an increase in escape of water severity for claims received late in 2022.

Our focus in Home will continue to be to prioritise margins, whilst planning to deploy its new platform, which we expect to bring longer-term trading and product development opportunities.

Commercial

Commercial continued to perform strongly in the first half, delivering higher policy count and good margins. We continued to benefit from technology investment over several years as well as a positive market backdrop.

Gross written premium and associated fees grew by 25.1% in the first half of 2023, reflecting 2.7% in-force policy growth, since year-end, as well as significant rate increases estimated at 14%. Growth was particularly strong in our Van book and for larger property risks.

NIG grew strongly benefiting from both rate and risk selection Trading conditions were positive across most segments in the market with the strongest growth in NIG's regional and speciality business.

Direct own brands also delivered strong growth, with gross written premium and associated fees 12.2% ahead of prior year. The Direct Line Landlord business grew well, with new multi-property propositions and pricing improvements driving 9% growth in in-force policy count year-on-year while Commercial policies underwritten under the Churchill brand performed strongly in the in the PCW channel.

The net insurance margin was 9.3% compared to 9.4% in the first half of 2022 as the effect of lower weather-related claims was partially offset by a lower level of prior year reserve releases. Overall operating profit was £41.4 million.

Rescue and other personal lines

Rescue and other personal lines continued to deliver strong margins with a net insurance margin of 18.6%. Green Flag was once again ranked as the top Rescue service provider by the UK Institute of Customer Service and we have further developed our customer proposition with the phased roll out of the Green Flag Patrol.

We continue to deliver good margins from our Pet offering and plan to launch a new platform designed to further improve our product offering and distribution.

Past business reviews

We are currently conducting two past business reviews, the first in relation to Motor total loss claims and the second in relation to the implementation of the FCA's Pricing Practices Review ("**PPR**") regulations. These reviews are unconnected. We aim to complete the first review this year and the second in the first half of 2024. Customers affected will be remediated and across the 2022 full-year and 2023 half-year results we have provided for an estimate of remediation totalling £40 million for Motor total loss and £30 million in relation to the FCA's PPR regulation. Of this total remediation, approximately £30 million was provided for in the first half of 2023.

Motability

We are excited to have welcomed almost 700,000 Motability customers at the start of September after nearly two years of preparation. The partnership is forecast to deliver around £700 million of gross premium annually generating significant scale benefits whilst being capital light as 80% is reinsured. The contract allows for six-monthly repricing to mitigate the risk of claims inflation.

Continuing to deliver for our customers and Consumer Duty

Rebuilding our financial strength is predicated on putting customers first and delivering for our customers every day.

In a challenging motor repair environment, we have focused on increasing the proportion of vehicles repaired and the speed of repairs. We have further expanded our Motor repair network to ensure we can meet the anticipated increase in demand as we bring on Motability customers.

Delivering for our Home customers was vital at the start of the year with a number of freeze events occurring. Our focus throughout this time was to be there for our customers, assessing and dealing with any damage from these events to help them through a difficult time. We also continue to support our customers in need at the roadside through our Green Flag network and in early 2023 we launched our first Green Flag branded patrol vehicles with repairs completed by our own mechanics. Our aim is to help mitigate the impact of heightened inflation and to improve visibility of the brand for our customers.

We understand that inflation and the cost of living crisis continues to impact peoples lives. To help our customers in obtaining cheaper Motor insurance we launched our Churchill Essentials product in 2022, and aim shortly to launch Direct Line Essentials. Essentials products are a cheaper alternative for customers but maintain the key features and benefits of a standard policy.

We do recognise, though, that we don't always get it right for our customers and, as set out earlier, we are currently undertaking two past business reviews where we did not deliver good outcomes to some customers. Our initial focus is to highlight any mistakes made, rectify them and then learn from them going forward.

We welcome the introduction of Consumer Duty which sets higher expectations for the standard of care that financial services firms should provide to customers and introduces a more outcomes-focused approach. This aligns with the Group's purpose to help people carry on with their lives, giving them peace of mind now and in the future. As part of the implementation of Consumer Duty, we have reviewed all our critical customer journeys, enhanced our methodology to put testing customer understanding at the heart of our thinking and embedded predicting customer harm in our ways of developing journeys and customer experience. Our new Riverbank House building in London which was opened in August 2023 includes a purpose-built "user experience testing" facility where we can meet with customers to test new experiences and place customers at the heart of any changes we make.

Capital management

The Group's solvency capital coverage ratio of 147% was in line with year end as continued management actions and organic capital generation in Home, Commercial and Rescue were offset by Motor performance. The proposed sale NIG is expected to increase the Group's pro-forma solvency capital ratio by approximately 45 percentage points.

During the first half, the Group has continued to reduce investment asset risk whilst benefiting from modest pull-to-par effect on its bond portfolio. Organic capital generation from non-Motor businesses has been positive but this was more than offset by continued reported losses from Motor.

Looking forward, expected improvement in Motor written margins should support future capital generation. Furthermore, the proposed changes to the risk margin calculation under Solvency II are estimated to increase the Group's capital coverage by approximately 4 percentage points.

The Board understands the importance of dividends to shareholders and will aim to restart dividends once two conditions are met. First, an improvement in the capital coverage at the upper end of our agreed range and secondly, a return to organic capital generation in Motor. Whilst the first condition would be met through the sale of NIG, for the second condition the Board will assess the performance of Motor over the second half of the year to ensure that actual performance is consistent with pricing assumptions.

Outlook

Operating profit in 2023 is expected to continue to be adversely affected by the earn through of previously written Motor business. The outlook for Motor claims inflation remains in line with our assumption of high single digits, however the opportunity for prior-year reserve releases in the short-term remains low given this inflationary backdrop.

Looking forward, the improved Motor margins now being achieved should provide a platform to support an improvement in operating profit into 2024.

The Group has taken decisive action to improve its financial position and continues to have an ambition over time to generate a net insurance margin of above 10%, normalised for weather.

JON GREENWOOD

ACTING CHIEF EXECUTIVE OFFICER

Note:

1. Average incepted written premium excluding IPT for Home own brands for the period ending 30 June 2023.

Group financial performance

	Notes	30 Jun 2023	31 Dec 2022	Change
Ongoing operations[1]				
In-force policies[2] (thousands)		**9,364**	9,674	(3.2%)
		H1 2023	H1 2022	Change
	Notes	**£m**	£m (restated[3])	£m
Ongoing operations[1]				
Gross written premium and associated fees[4]		**1,615.2**	1,470.5	9.8%
Net insurance revenue[4]		**1,454.1**	1,469.7	(1.1%)
Insurance service result		**(93.4)**	166.5	(259.9)
Net insurance margin[4]		**(6.4%)**	11.3%	(17.7pts)
Combined operating ratio[4]		**106.4%**	88.7%	(17.7pts)
Net insurance claims ratio[4]		**75.2%**	59.3%	(15.9pts)
Net acquisition ratio[4]		**10.7%**	9.9%	(0.8pts)
Net expense ratio[4]		**20.5%**	19.5%	(1.0pt)
Normalised net insurance margin[4]		**(8.3%)**	11.2%	(19.5pts)
Net investment income		**78.9**	53.8	46.7%
Unwind of discounting of claims[4]		**(55.7)**	(15.1)	(40.6)
Other operating income and expenses before restructuring and one-off costs		**(8.1)**	(8.2)	1.2%
Operating (loss)/profit - ongoing operations[1,4]		**(78.3)**	197.0	(275.3)
Of which:				
Current-year operating (loss)/profit[4]		**(60.0)**	72.4	(132.4)
Prior-year reserve releases		**(18.3)**	124.6	(142.9)
FV gains/(losses)[4]		**(5.5)**	(224.7)	97.6%
Effect of change in yield curve[4]		**39.6**	35.6	11.2%
Restructuring and one-off costs		**(8.8)**	(4.0)	(120.0%)
Run-off partnerships[1]		**(16.1)**	(1.6)	(14.5)
Other finance costs		**(7.2)**	(13.4)	46.3%
Loss before tax		**(76.3)**	(11.1)	(65.2)
Tax credit		**24.4**	15.8	54.4%
(Loss)/profit for the period attributable to the owners of the Company		**(51.9)**	4.7	(56.6)
KPIs				
Operating return on tangible equity annualised[4]		**(14.6%)**	18.9%	(33.5pts)
Basic loss per share (pence)	11	**(4.6)**	(0.3)	(4.3)
Diluted loss per share (pence)	11	**(4.6)**	(0.3)	(4.3)
Operating loss per share (pence)		**(4.4)**	(0.9)	(3.5)
Return on equity annualised[4]	12	**(6.6%)**	(0.3%)	(6.3pts)
Investments metrics				
Investment income yield annualised[4]		**3.2%**	2.0%	1.2pts
		30 Jun 2023	31 Dec 2022	Change
Capital and returns metrics				
Net asset value per share (pence) (unaudited)	12	**137.5**	142.1	(3.2%)
Tangible net asset value per share (pence)		**72.8**	78.8	(7.6%)
Solvency capital ratio[5]		**147%**	147%	—

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
2. In-force policies as at 31 December 2022 have been restated to remove 14,500 Commercial policies that were previously included in the reported amounts in error
3. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
4. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items
5. Estimates based on the Group's Solvency II partial internal model.

CHIEF FINANCIAL OFFICER REVIEW

Group financial performance

Ongoing operations[1]	**30 Jun 2023**	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	Change from 31 Dec 2022
In-force policies (thousands)[2,3]	**9,364**	9,515	9,674	9,771	9,911	(3.2%)

	H1 2023 £m	H1 2022 £m restated[4]	Change	H2 2022 £m restated[4]
Gross written premium and associated fees[2,4]	**1,615.2**	1,470.5	9.8%	1,503.5
Motor	**(183.8)**	53.2	(445.5%)	(123.9)
Home	**32.3**	55.9	(42.2%)	(59.4)
Rescue and other personal lines - ongoing operations[1]	**25.2**	28.8	(12.5%)	26.9
Commercial	**32.9**	28.6	15.0%	14.8
Insurance service result	**(93.4)**	166.5	(156.1%)	(141.6)
Net investment income	**78.9**	53.8	46.7%	60.7
Unwind of discounting of claims[5]	**(55.7)**	(15.1)	(268.9%)	(44.3)
Other operating income and expenses before restructuring and one-off costs	**(8.1)**	(8.2)	1.2%	(15.3)
Operating (loss)/profit - ongoing operations[5]	**(78.3)**	197.0	(139.7%)	(140.5)
Net insurance margin[5]	**(6.4%)**	11.3%	(17.7pts)	(9.6%)
Net insurance claims ratio[5]	**75.2%**	59.3%	(15.9pts)	81.4%
Net acquisition ratio[5]	**10.7%**	9.9%	(0.8pts)	10.2%
Net expense ratio[5]	**20.5%**	19.5%	(1.0pt)	18.1%
Normalised net insurance margin[5]	**(8.3%)**	11.2%	(19.5pts)	(4.8%)

IFRS17 and description of operating (loss)/profit

This is the first set of results that the Group is reporting under IFRS 17, the new insurance accounting standard for insurance contracts. Although the new standard does not change the economics of the Group it does introduce new disclosure headings and some changes in timing of recognition, for example. insurance claims are now all discounted to reflect the time value of money.

The table above sets out the Group's operating profit for ongoing operations for the first half of 2023. Significant items excluded from operating profit for ongoing operations include the results from certain partnerships that are now in run-off, fair value movements on investments, the effect of changes of discount rates on brought forward claims reserves and restructuring and other one-off costs. These items are discussed later in this report.

2023 performance

Performance in the first half of 2023 was adversely affected by the earn through of Motor policies written in 2022 and early 2023 against continued high claims inflation. Outside of Motor, results were resilient and benefited from relatively benign weather conditions. Net investment income improved due to the effect of higher interest rates and this was offset by an increase in the unwinding of previous periods discounting. Overall operating loss for ongoing operations was £78 million, a significant fall compared to the first half of 2022.

In-force policies and gross written premium and associated fees[1,2]

In-force policies from ongoing operations were 9.4 million at the end of June, 3.2% lower than at the end of 2022 with reductions across all segments except Commercial which continued to deliver strong growth.

Gross written premium and associated fees from ongoing operations grew by 9.8% to £1,615.2 million predominantly due to strong growth of 25.1% in Commercial and growth of 7.3% in Motor as higher average premiums offset lower volumes.

Total Group in-force policies were 11.6 million and gross written premium and associated fees was £1,687.5 million.

Insurance service result[1]

The Group's insurance service result from ongoing operations was a loss of £93.4 million (£109.4 million loss including run-off partnerships), a reduction of £259.9 million compared to H1 2022. This represents a net insurance margin of minus 6.4% (H1 2022: 11.3%). Normalised for weather, the net insurance margin was minus 8.3% (H1 2022: 11.2%).

The insurance service result for Motor was a £183.8 million loss (H1 2022: £53.2 million profit) as the Motor net insurance claims ratio deteriorated (30.5pts) reflecting the earn through of business written prior to adjustment for continuing high claims inflation and lower prior-year reserve releases.

This loss in Motor was offset by a cumulative insurance service result of £90.4 million across Home, Rescue and other personal lines and Commercial (H1 2022: £113.3 million) and a net insurance margin of 12.2% (H1 2022: 15.7%).

Prior-year reserve releases from ongoing operations reduced from £125 million in H1 2022 to a strengthening of £18 million in H1 2023, due predominantly to a £60 million strengthening in Motor partially offset by releases elsewhere. Looking forward, the opportunity for prior-year reserve releases in the short term remains low given the inflationary backdrop.

Weather-related claims in the first half of the year were £12 million, less than our H1 2023 assumption of £40 million and £25 million lower than prior year. Our weather-related claims assumption for Home and Commercial combined for 2023 is £80 million.

As stated in the CEO Review, we are currently conducting two past business reviews and approximately £30 million was provided for these in the first half of 2023.

Together, these trends delivered a net insurance claims ratio from ongoing operations of 75.2% (H1 2022: 59.3%).

The net insurance margin from ongoing operations was minus 6.4% (H1 2022: 11.3%) and was minus 8.3%, when normalised for weather (H1 2022: 11.2%).

The net acquisition and net expense ratios from ongoing operations increased by 0.8pts and 1.0pt respectively. The net acquisition costs ratio increase was primarily due to business mix following growth in Commercial, which was partly offset by an 11.1% reduction in marketing costs. Operating expenses increased by 4.0% driven by increased amortisation and depreciation costs, alongside inflationary pressures on third party costs. Staff costs remained flat year on year following a reduction in headcount, mitigating the impact of inflation.

Expenses in insurance service result

	H1 2023 **£m**	H1 2022 (restated)[4] £m
Commission expenses	**(126.6)**	(111.8)
Marketing	**(29.7)**	(33.4)
Acquisition expenses	**(156.3)**	(145.2)
Staff costs[6]	**(116.4)**	(116.2)
IT and other operating expenses[6,7]	**(71.1)**	(63.6)
Insurance levies	**(50.1)**	(51.5)
Depreciation, amortisation and impairment of intangible and fixed assets[8]	**(60.7)**	(55.5)
Operating expenses	**(298.3)**	(286.8)
Total expenses - ongoing operations	**(454.6)**	(432.0)
Total expenses - run-off partnerships	**(11.3)**	(13.7)
Total expenses	**(465.9)**	(445.7)
Net acquisition ratio[5] - ongoing operations	**10.7%**	9.9%
Net acquisition ratio[5] - total Group	**10.3%**	9.7%
Net expense ratio[5] - ongoing operations	**20.5%**	19.5%
Net expense ratio[5] - total Group	**20.3%**	19.6%

Net investment income increased to £78.9 million (H1 2022: £53.8 million) primarily driven by yield improvements in variable rate asset classes following UK base rate increases. This represents an investment income yield of 3.2%. Based on current yields, we estimate an investment income yield of between 3.4% and 3.5% for 2023.

Investment result and unwind of discount rate[1]

	H1 2023 **£m**	H1 2022 £m restated[4]
Investment income	**83.8**	58.6
Investment fees	**(4.9)**	(4.8)
Net investment income	**78.9**	53.8
Insurance and reinsurance finance expenses - unwind of discounting of claims	**(55.7)**	(15.1)
Finance income and expenses in operating profit	**23.2**	38.7

	H1 2023	H1 2022
Investment income yield	**3.2%**	2.0%

The increase in investment income was offset by an increase in the unwind of the discounting of claims. Given the increase in interest rates during the first half of 2023, the unwinding of prior-period discounting in the second half of 2023 is expected to be modestly higher.

Reconciliation of operating (Loss)/profit to basic loss per share

	Note	H1 2023 £m	H1 2022 £m restated[4]
Motor		**(180.4)**	66.7
Home		**33.0**	59.9
Rescue and other personal lines - ongoing operations[1]		**27.7**	31.4
Commercial		**41.4**	39.0
Operating (loss)/profit - ongoing operations[1]		**(78.3)**	197.0
Operating loss - run-off partnerships[1]		**(16.1)**	(1.6)
Operating (loss)/profit - total Group		**(94.4)**	195.4
FV gains/(losses)[5]		**(5.5)**	(224.7)
Net insurance finance expenses - effect of change in yield curve		**39.6**	35.6
Restructuring and one-off costs		**(8.8)**	(4.0)
Other finance costs		**(7.2)**	(13.4)
Tax charge/(credit)		**24.4**	15.8
Loss for the period attributable to the owners of the Company		**(51.9)**	4.7
Basic loss per share (pence)	11	**(4.6)**	(0.3)
Operating return on tangible equity annualised[5]		**(14.6%)**	18.9%

Ongoing operations and run-off partnerships[1]

The Group has exited, or has initiated termination of, three partnerships which will reduce its exposure to low margin packaged bank accounts so it can redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024.

The Group has excluded the results of these three run-off partnerships from its ongoing results and has restated all relevant comparatives across this review. Results relating to ongoing operations are clearly referenced. Note 4 (Segmental analysis) has also been amended to reflect the change. The operating loss relating to run-off partnerships in H1 2023 was £16.1 million (H1 2022: £1.6 million loss).

The insurance service result including run-off partnerships was a loss of £109 million (H1 2022: £165 million profit) and the net insurance margin including run-off partnerships was minus 7.2% (H1 2022: 10.9%).

Net fair value gains/(losses)

Net fair value losses in the period were £5.5 million, a significant improvement on H1 2022 given reduced market volatility. Fair value losses on debt securities, derivatives and investment property was £5.8 million (H1 2022: £224.8 million loss).

Restructuring and one-off costs

The Group incurred £8.8 million of restructuring and one-off costs in H1 2023, which was predominantly driven by actions taken to consolidate its office premises, alongside redundancy costs as part of the Group's ongoing cost transformation programme.

Other finance costs

Other finance costs fell to £7.2 million (H1 2022: £13.4 million) primarily as a result of the redemption of the Group's £250 million 9.25% Tier 2 subordinated notes on 27 April 2022.

Effective corporation tax rate

The Effective Tax Rate ("ETR") for H1 2023 was 31.9% (H1 2022: 142.6%; 2022: 23.2%) which was higher than the standard UK corporation tax rate of 23.5% (2022: 19%) driven primarily by tax relief for the Tier 1 coupon payments which are accounted for as a distribution, partly offset by disallowable expenses, together with the tax credit resulting from the re-estimation of tax rates on forecast reversals of deferred tax.

This is lower than the restated effective tax rate for H1 2022, which reflected the rate differential between the in-force corporation tax rate for FY22 of 19% and future enacted tax rates (25% from 1 April 2023) on tax adjustments arising on transition from IFRS 4 to IFRS17 and IFRS9. These are to be relieved in subsequent periods at higher standard tax rates.

Operating return on tangible equity annualised[1,5]

The annualised operating return on tangible equity decreased by 33.5pts to (14.6)% (H1 2022: 18.9%) due primarily to the decrease in the Group's operating profit from ongoing operations.

(Loss)/earnings per share

The basic loss per share for period was 4.6 pence (H1 2022: loss of 0.3 pence). Diluted loss per share were also 4.6 pence (H1 2022: loss of 0.3 pence), mainly reflecting an increase in the Group's post tax loss for the calculation of earnings per share in H1 2023. Operating earnings per share was minus 4.4 pence (H1 2022: loss of 0.9 pence).

The financial performance of the Group is discussed in detail on pages 7 to 10. The calculation of (loss)/earnings per share is presented in note 11 on page 47. The calculation of operating earnings/(loss) per share is presented on page 67.

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
2. See appendix B for additional data on in-force policies and gross written premium and associated fees.
3. In-force policies as at 31 December 2022 and 31 March 2023 have been restated to remove 14,500 and 19,700 Commercial policies respectively that were previously included in the reported amounts in error.
4. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
5. See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
6. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
7. IT and other operating expenses include professional fees and property costs.
8. Includes right-of-use ("**ROU**") assets and property, plant and equipment. For the period ended 30 June 2023, there were impairment charges of £0.1 million which relate solely to own occupied freehold property (H1 2022: no impairments).

Cash flow

	Note	**30 Jun 2023** **£m**	31 Dec 2022 £m restated and unaudited
Net cash generated from operating activities		**685.6**	800.2
Of which:			
Operating cash flows before movements in working capital		**(106.0)**	26.7
Movements in working capital		**76.6**	(42.8)
Tax paid		**(3.7)**	(44.5)
Cash generated from investment of insurance assets		**718.7**	860.5
Net cash used in investing activities		**(80.0)**	(100.8)
Net cash used in financing activities		**(38.9)**	(657.5)
Net increase in cash and cash equivalents	16	**566.7**	41.9
Cash and cash equivalents at the beginning of the year		**938.4**	896.5
Cash and cash equivalents at the end of the period	16	**1,505.1**	938.4

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

The Group's cash and cash equivalents increased by £566.7 million during the year (2022: £41.9 million increase) to £1,505.1 million.

The Group had an operating cash outflow before movements in working capital of £106.0 million (2022: inflow £26.7 million), a reduction of £132.7 million due to a reduction in non-cash movements partially offset by the profit for the year. After taking into account movements in working capital, the Group's cash outflow was £33.1 million (2022: outflow £60.3 million), an increase of £27.2 million. The Group has considerable assets under management, the cash generated from these assets decreased by £141.8 million to £718.7 million as proceeds from the disposal and maturity of debt securities held at fair value through profit or loss ("**FVTPL**") exceeded purchases. Net cash generated from operating activities was £685.6 million (2022: £800.2 million).

Net cash used in investing activities of £80.0 million which primarily reflected the Group's continuing investment in its major IT programmes (2023: £65.1 million, 2022: £108.4 million).

Net cash used in financing activities of £38.9 million included £8.3 million in Tier 1 capital coupon payments and £nil in dividends in the year (2022: £314.5 million in dividends and Tier 1 capital coupon payments), £nil in share buybacks (2022: £50.1 million) and £5.9 million (2022: £8.9 million) lease principal payments. Also included in 2022 was the redemption of the remaining £250.0 million Tier 2 subordinated debt issued in 2012.

The £685.6 million the Group generated from operating activities more than offset net cash used in financing and investing activities and resulted in a net increase in cash and cash equivalents of £566.7 million (2022: £41.9 million increase) to £1,505.1 million (2022: £938.4 million). The levels of cash and other highly liquid sources of funding that the Group holds to cover its claims obligations are continually monitored with the objective of ensuring that the levels remain within the Group's risk appetite.

Segmental Report

Motor

	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	Change from 31 Dec 2022
In-force policies (thousands)	**3,673**	3,741	3,836	3,854	3,944	(4.2%)
Of which:						
Direct own brands[1]	**3,607**	3,669	3,756	3,766	3,846	(4.0%)
Partnerships	**66**	72	80	88	98	(17.5%)

	H1 2023 £m	H1 2022 £m restated[2]	Change	H2 2022 £m restated[2]
Gross written premium and associated fees[3]	**758.7**	706.8	7.3%	725.9
Of which:				
Direct own brands[1]	**744.2**	688.8	8.0%	709.7
Partnerships	**14.5**	18.0	(19.4%)	16.2
Operating (loss)/profit[3]	**(180.4)**	66.7	(370.5%)	(131.5)
Net insurance margin[3]	**(25.6%)**	7.1%	(32.7pts)	(16.9%)
Net insurance claims ratio[3]	**98.2%**	67.7%	(30.5pts)	91.7%
Net acquisition ratio[3]	**4.5%**	4.9%	0.4pts	6.3%
Net expense ratio[3]	**22.9%**	20.3%	(2.6pts)	18.9%

The Motor result continues to be adversely affected by the earn through of policies written in 2022 and early 2023 that did not reflect the current levels of Motor claims inflation. The Group has taken significant action including price increases, the introduction of a new product and underwriting improvements and believes it is now underwriting consistent with a 10% net insurance margin.

In-force policies and gross written premium and associated fees

The motor market experienced significant price inflation during the first half of 2023 in response to market wide claims inflation which led to an increase in customer shopping and a reduction in market retention rates. The Group applied 37%[4] of rate increases over the first half. As a result, average premium increased by 19% with a 25%[5] increase in renewal average premium. During June average premium on renewals was up 33%[5].

The Group's actions to improve profitability led to an increase in gross written premium and associated fees of 7.3% compared with the first half of 2022 despite in-force policies reducing by 4.2% over the period.

Underwriting

Claims trends were adverse during the period, in particular relating to damage claims in the first quarter, which suffered from higher-than-normal levels of total losses arising from industry repair backlogs as well as increased labour rates. Overall, this has increased our view of claims severity inflation in 2022 to 17% and has contributed to a strengthening in prior-year reserves. We have seen an underlying increase in claims frequency as miles driven return closer to pre-pandemic levels; however due to reductions in risk mix, absolute frequency remains below 2019 levels. For 2023 we continue to expect claims severity inflation in the high single digits.

Net insurance margin and (loss)/profit

The combination of these factors led to an 30.5pts increase in the claims ratio to 98.2% and a similar reduction in the net insurance margin to minus 25.6%. This resulted in an operating loss of £180.4 million in the first half of 2023. The reported net insurance margin and operating profit does not reflect the level of profitability being achieved on business now being written and this will provide a platform from which support earnings in future periods.

We are excited to have welcomed almost 700,000 Motability customers at the start of September after nearly two years of preparation. The partnership is forecast to deliver around £700 million of gross premium annually generating significant scale benefits whilst being capital light as 80% is reinsured. The contract allows for six-monthly repricing to mitigate the risk of claims inflation.

In addition, the Group is planning to extend its Essentials product to Direct Line customers and will look to leverage the capability arising from the acquisition of ByMiles.

Home

	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	Change from 31 Dec 2022
In-force policies (thousands)	**2,464**	2,496	2,501	2,533	2,571	(1.5%)
Of which:						
Direct own brands[1]	**1,705**	1,731	1,732	1,758	1,792	(1.6%)
Partnerships	**759**	765	769	775	779	(1.3%)

	H1 2023 £m	H1 2022 £m restated[2]	Change	H2 2022 £m restated[2]
Gross written premium and associated fees[3]	**252.7**	250.4	0.9%	267.7
Of which:				
Direct own brands[1]	**183.5**	182.1	0.8%	199.4
Partnerships	**69.2**	68.3	1.3%	68.3
Operating profit[3]	**33.0**	59.9	(44.9%)	(59.0)
Net insurance margin[3]	**13.0%**	20.2%	(7.2pts)	(23.1%)
Net insurance claims ratio[3]	**58.1%**	54.5%	(3.6pts)	100.7%
Net acquisition ratio[3]	**7.0%**	6.0%	(1.0pt)	6.5%
Net expense ratio[3]	**21.9%**	19.3%	(2.6pts)	15.9%
Normalised net insurance margin[3]	**6.0%**	18.7%	(12.7pts)	3.0%

Home continued to trade well in the first half of 2023, with growth in premium written and a low level of weather-related claims.

In-force policies and gross written premium and associated fees

The home market experienced positive pricing in the first half of 2023 with an estimated increase in market premium of 18%. This follows a number of years of limited increases in the market and in part reflects an increase in reinsurance costs. These trends have increased shopping in the market albeit this still remains lower than before the implementation of the FCA's PPR regulations.

The Group increased prices during the first half of 2023 to reflect our view of claims inflation and increased reinsurance costs which resulted in average premium on own brands increasing by 9%. Retention has remained strong across the period. Overall gross written premium and associated fees increased by 0.9% compared to the first half of 2022, or 4% when adjusted to remove the impact of remediation, whilst in-force policies reduced by 1.5% since year-end.

Underwriting

Underlying claims trends for 2023 remained in line with our expectations of high single digits, although we did experience an increase in escape of water severity for claims received late in 2022 around the time of the December freeze event. This reduced the opportunity for prior year reserve releases compared to an unusually high level in the first half of 2022.

Weather related claims of £9.7 million (H1 2022: £21.1 million) were low in the first half of 2023 relating to a mini-freeze event in January. The full year 2023 weather related claims assumption for Home is £54 million.

Net insurance margin and profit

These factors combined led to a 3.6pts increase in the claims ratio to 58.1% as better weather was more than offset by lower prior year reserve releases and an increase in the attritional claims ratio. The net insurance margin was 13.0% with operating profit of £33.0 million. Normalised for weather the net insurance margin was 6.0%.

Looking forward, Home is expected to continue to trade in a similar way, prioritising maintaining margins over volume and using its brand portfolio to achieve this. We are planning to launch our new Home platform which is expected to bring longer-term trading and product development opportunities.

Rescue and other personal lines ("RoPL")[3,6]

	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	Change from 31 Dec 2022
In-force policies (thousands)	**2,289**	2,348	2,424	2,472	2,512	(5.6%)
Of which:						
Rescue - ongoing operations	**2,062**	2,114	2,185	2,227	2,264	(5.6%)
Of which Green Flag direct	**1,093**	1,073	1,106	1,136	1,156	(1.2%)
Pet	**121**	125	128	130	133	(5.5%)
Other personal lines - ongoing operations	**106**	109	111	115	115	(4.5%)

	H1 2023 £m	H1 2022 £m restated[2]	Change	H2 2022 £m restated[2]
Gross written premium and associated fees[3]	**131.0**	135.5	(3.3%)	138.4
Of which:				
Rescue - ongoing operations	**67.2**	70.3	(4.4%)	73.4
Of which Green Flag direct	**40.9**	40.5	1.0%	47.7
Pet	**34.1**	35.7	(4.5%)	112.7
Other personal lines - ongoing operations	**29.7**	29.5	0.7%	258.8
Operating profit[3]	**27.7**	31.4	(11.8%)	28.7
Net insurance margin[3]	**18.6%**	20.3%	(1.7pts)	19.6%
Net insurance claims ratio[3]	**53.1%**	52.9%	(0.2pts)	51.5%
Net acquisition ratio[3]	**13.3%**	7.7%	(5.6pts)	8.0%
Net expense ratio[3]	**15.0%**	19.1%	4.1pts	20.9%

Overall Rescue and other personal lines continued to deliver a healthy diversified profit for the Group at a strong net insurance margin. Gross written premium reduced by 3.3% primarily as a result of lower Rescue and Pet volumes. Operating profit of £27.7 million was lower than the prior year primarily due to the non-repeat of lower than normal frequency in Rescue.

Rescue

Rescue's in-force policies and gross written premium from ongoing operations were lower in H1 2023 as a result of lower Motor policies, where Rescue is sold alongside the Motor policy, which more than offset stable premiums in Green Flag.

Rescue saw a modest tick up in frequency as the final Covid-related effects unwound as well as an increase in average claims cost. While fuel related impacts were beneficial this was offset by underlying inflation. Overall, Rescue's ongoing operations delivered operating profit of £23.5 million (H1 2022: £33.2 million) and the net insurance margin remained attractive at 29.0%.

A fleet of Green Flag branded patrol vehicles are being rolled out following a successful pilot. This aims to help mitigate the impact of claims inflation and offer new revenue opportunities.

Other personal lines

Other personal lines is made up of Pet, Travel, Creditor and Select, our mid- to high-net worth insurer. Pet accounts for the majority of Other personal lines profit.

Pet gross written premiums fell 4.5% as in-force policies reduced by 5.5% since the start of the year. Profitability remained strong. The Group is planning to launch a new Pet platform intended to enable growth opportunities through enhanced product and distribution.

Commercial

	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	Change from 31 Dec 2022
In-force policies[7] (thousands)	**938**	930	913	912	884	2.7%
Of which:						
Direct own brands[1,7]	**645**	643	636	644	623	1.4%
NIG and other	**293**	287	277	268	261	5.8%

	H1 2023 £m	H1 2022 £m restated[2]	Change	H2 2022 £m restated[2]
Gross written premium and associated fees[3]	**472.8**	377.8	25.1%	371.5
Of which:				
Direct own brands[1]	**119.2**	106.2	12.2%	112.7
NIG and other	**353.6**	271.6	30.2%	258.8
Operating profit[3]	**41.4**	39.0	6.2%	21.3
Net insurance margin[3]	**9.3%**	9.4%	(0.1pts)	4.3%
Net insurance claims ratio[3]	**49.1%**	46.1%	(3.0pts)	56.8%
Net acquisition ratio[3]	**24.8%**	26.6%	1.8pts	22.2%
Net expense ratio[3]	**16.8%**	17.9%	1.1pts	16.7%
Normalised net insurance margin[3]	**6.2%**	10.8%	(4.6pts)	5.6%

During the first half of 2023, Commercial continued to deliver strong in-force policy count growth and double-digit premium growth. This reflected the benefits of its transformation alongside a positive commercial market backdrop.

In-force policies and gross written premium and associated fees

Commercial operates in a number of market segments which have been experiencing varying degrees of market premium inflation. In particular premium rate increases have been seen in van and larger property risks, for example in the Social Housing sector. Overall rate increases across the portfolio are estimated at 14% in the first half of the year. Furthermore the market-wide premium increases have increased the amount of new business opportunities in the broker market.

Gross written premium increased by 25.1% compared to H1 2022, with strong growth across both NIG and other (30%) and direct own brands (12%). This was driven by increased premium rates as well as a 2.7% increase in in-force policies since the year end.

Underwriting

Claims inflation varied across the book with the highest inflation experienced on motor related lines, especially van.

Commercial also experienced benign weather in H1 2023 with major events estimated to be £2.0 million compared with £15.1 million in H1 2022. The annual expectation for weather in Commercial is £26 million for 2023.

Net insurance margin and

profit

The claims ratio was broadly stable at 49.1% as lower weather-related claims was offset by lower levels of prior-year reserve releases. The latter was partly due to adverse development on Motor.

The acquisition and expense ratios continued to improve due to the effect of operational gearing. Overall the net insurance margin was 9.3% and operating profit was £41.4 million. Normalised for weather, the net insurance margin was 6.2%.

Looking forward, the Commercial market is currently expected to remain positive.

Run-off partnerships[6]

In our FY 2022 results we disclosed that we planned 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, in order to improve our capital efficiency, and we are presenting the results for this business as a separate segment.

Rescue packaged accounts

Our contract with NatWest Group ended in December 2022 and is due to run off by the end of 2023, albeit that claims may run off over a longer period. This partnership represented around 1.1 million in-force policies.

Travel packaged accounts

Our partnerships with NatWest Group and Nationwide Building Society are due to expire in 2024 and are expected to run off in early 2025. Together, these travel partnerships represent around 2.2 million in-force policies.

H1 2023 results

Gross written premium and associated fees were £72.3 million (H1 2022: £52.6 million). The operating loss relating to run-off partnerships in H1 2023 was £16.1 million (H1 2022: £1.6 million).

Notes:

1. Direct own brands include Motor in-force policies under the Direct Line, Churchill, Darwin, Privilege and By Miles brands, Home in-force policies under the Direct Line and Churchill brands and Commercial in-force policies under the Direct Line for Business and Churchill brands.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
3. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
4. Rate figures quoted relate to Motor direct own brands excluding the Darwin and ByMiles brands.
5. Average premium and rate figures quoted relate to Motor direct own brands excluding the ByMiles brand.
6. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
7. In-force policies as at 31 December 2022 and 31 March 2023 have been restated to remove 14,500 and 19,700 direct own brand policies respectively that were previously included in the reported amounts in error.

Balance sheet management

Capital management and dividend policy

The Group's capital management and dividend policy is as follows:

"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."

In the light of the Group's performance, no interim dividend is proposed for the half year, 2023. The Board understands the importance of dividends to shareholders and will aim to restart dividends once two conditions are met. First, an improvement in the capital coverage at the upper end of our agreed range and secondly, a return to organic capital generation in Motor. Whilst the first condition would be met through the sale of NIG, for the second condition the Board will assess the performance of Motor over the second half of the year to ensure that actual performance is consistent with pricing assumptions.

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 2023.

Capital position

At 30 June 2023, the Group held a Solvency II capital surplus of £0.57 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 147%

At	**30 Jun 2023**	31 Dec 2022
Solvency capital requirement (£ billion)	**1.20**	1.21
Capital surplus above solvency capital requirement (£ billion)	**0.57**	0.57
Solvency capital ratio post dividends and share buyback	**147%**	147%

Movement in capital surplus

	6 months 2023 **£bn**	FY 2022 £bn
Capital surplus at 1 January	**0.57**	1.03
Capital generated/(used) excluding market movements	**0.03**	(0.06)
Market movements	**0.03**	(0.12)
Capital generated/(used)	**0.06**	(0.18)
Change in solvency capital requirement	**0.01**	0.14
Surplus generated/(used)	**0.07**	(0.04)
Capital expenditure	**(0.08)**	(0.12)
Repayment of subordinated Tier 2 notes	—	(0.25)
Interim dividend[1]	—	(0.10)
Removal of second tranche of share buyback	—	0.05
Decrease in ineligible Tier 3 capital[2]	**0.01**	—
Net surplus movement	—	(0.46)
Capital surplus at 30 June 2023 / 31 December 2022	**0.57**	0.57

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 2023, 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 2022, 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 2023, the Group generated £0.06 billion of Solvency II capital after market movements. After capital expenditure of £0.08 billion and other offsetting movements the net surplus was unchanged. Capital expenditure levels are expected to be broadly in line with 2022.

Change in solvency capital requirement

	2023 £bn
Solvency capital requirement at 1 January	**1.21**
Model and parameter changes	**(0.03)**
Exposure changes	**0.02**
Solvency capital requirement at 30 June	**1.20**

During H1 2023, the Group's SCR reduced by £0.01 billion to £1.20 billion. Model and parameter changes, predominantly due to upgrading the internal model economic scenario generator and assets under management, resulted in a decrease of £0.03 billion, partially offset by a £0.02 billion increase in exposure changes relating to catastrophe reinsurance and updating to current claims reserves.

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 2023. The impacts on the Group's solvency capital ratio arise from movements in both the Group's SCR and own funds.

	Impact on solvency capital ratio	
At	**30 Jun 2023**	31 Dec 2022[2]
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	**(5pts)**	(5pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(10pts)**	(10pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(10pts)**	(10pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[3]	**(9pts)**	(10pts)
100bps increase in credit spreads	**(5pts)**	(5pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**(1pt)**	1pts

Notes:

1. Sensitivities are calculated under the assumption full tax benefits can be realised.
2. The periodic payment order ("**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.
3. Includes only the impact on assets held at FVTPL (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 2023** **£bn**	31 Dec 2022 £bn
Tier 1 capital – unrestricted	**1.09**	1.07
Tier 1 capital – restricted	**0.30**	0.32
Less reclassified restricted Tier 1 debt[1]	**(0.04)**	(0.05)
Eligible Tier 1 capital	**1.35**	1.34
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.24**	0.26
Tier 3 capital – deferred tax	**0.20**	0.21
Ineligible Tier 3 capital[2]	**(0.02)**	(0.03)
Total eligible own funds	**1.77**	1.78

Notes:

1. As at 30 June 2023, £37 million (31 December 2022: £51 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 30 June 2023, 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 2022, 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 2023, the Group's eligible own funds reduced from £1.78 billion to £1.77 billion. Eligible Tier 1 capital after foreseeable distributions represents 76% of own funds and 113% of the estimated SCR. Tier 2 capital relates to the Group's £0.20 billion subordinated debt and £0.04 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 £0.02 billion.

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

At	**30 Jun 2023** **£bn**	31 Dec 2022 £bn
Total shareholders' equity	**1.79**	1.93
Goodwill and intangible assets	**(0.84)**	(0.82)
Change in valuation of technical provisions	**0.21**	—
Other asset and liability adjustments	**(0.07)**	(0.04)
Tier 1 capital – unrestricted	**1.09**	1.07
Tier 1 capital – restricted	**0.30**	0.32
Less reclassified restricted Tier 1 debt[1]	**(0.04)**	(0.05)
Eligible Tier 1 capital	**1.35**	1.34
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.24**	0.26
Tier 3 capital – deferred tax	**0.20**	0.21
Ineligible Tier 3 capital[2]	**(0.02)**	(0.03)
Total eligible own funds	**1.77**	1.78

Notes:

1. As at 30 June 2023, £37 million (31 December 2022: £51 million) of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to Solvency II tiering restrictions.
2. At 30 June 2023, the amount of Tier 3 capital permitted under the Solvency II regulations is 15% of the Group's SCR which resulted in ineligible capital of £24 million. At 31 December 2022, 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 £33 million.

Investment portfolio

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 PPOs and non-PPOs liabilities in an optimal manner; and
- to deliver a suitable risk-adjusted investment return commensurate with our risk appetite.

The current strategic asset allocation is under review given the changed macro-economic environment and resulting shifts in investment risk and return opportunities.

Asset and liability management

The following table summarises the Group's high-level approach to asset and liability management.

Liabilities	Assets	Characteristics
More than 10 years, for example PPOs	Property and infrastructure debt	Inflation linked or floating
Short and medium term - all other claims	Investment-grade credit	Fixed - key rate duration matched
Tier 1 equity	Investment-grade credit	Fixed
Tier 2 sub-debt (swapped fixed to floating)	Commercial real estate loans and cash	Floating
Tier 2 sub-debt fixed	Investment-grade credit and cash	Fixed or floating
Surplus - tangible equity	Investment-grade credit, short-term high yield, cash and government debt securities	Fixed or floating

Investment holdings

At	30 Jun 2023 £m	31 Dec 2022 £m restated[1] and unaudited
Investment-grade credit[2]	**2,249.4**	2,360.0
High yield	**266.5**	278.8
Private placements	**97.2**	97.2
Credit	**2,613.1**	2,736.0
Sovereign[2]	**77.7**	510.3
Total debt securities	**2,690.8**	3,246.3
Infrastructure debt	**221.4**	236.8
Commercial real estate loans	**175.7**	198.9
Other loans	**1.6**	1.6
Cash and cash equivalents[3]	**1,505.1**	938.4
Investment property	**281.9**	278.5
Equity investments[4]	**15.8**	14.4
Total investment holdings	**4,892.3**	4,914.9

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Asset allocation at 30 June 2023 includes investment portfolio derivatives, which have a mark-to-market asset value of £31.3 million which is split as assets of £30.9 million included in investment grade credit and of £0.4 million included in sovereign debt (31 December 2022: mark-to-market asset value of £2.5 million and £0.9 million liability respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
3. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
4. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

At 30 June 2023, total investment holdings of £4,892.3 million were 0.5% lower than at the start of the year, reflecting adverse fair value movements in fixed rate debt securities. Total debt securities were £2,690.8 million (31 December 2022: £3,246.3 million), of which 4.1% were rated as 'AAA' and a further 53.6% were rated as 'AA' or 'A'. The average duration at 30 June 2023 of total debt securities was 2.4 years (31 December 2022: 2.3 years).

At 30 June 2023, total unrealised losses on investments held at FVTPL were £284.7 million (31 December 2022: £282.1 million unrealised losses). The increase in unrealised losses is attributed to an increasing interest rate environment, partly mitigated by a tightening of credit spreads.

	Note	H1 2023 £m	H1 2022 £m restated[3] and unaudited
Investment income		**83.8**	58.6
Investment fees		**(4.9)**	(4.8)
Net investment income in operating profit		**78.9**	53.8
Net investment income - exited partnerships		**0.7**	0.4
Net investment income	6	**79.6**	54.2
Net FV gains/(losses)[4]	6	**(5.5)**	(224.7)
Total investment income recognised through the income statement	6	**74.1**	(170.5)

Net investment income increased to £78.9 million (H1 2022: £53.8 million) primarily driven by yield improvements in variable rate asset classes following UK base rate increases.

Fair value losses during H1 were £5.5 million, significantly lower than H1 2022 (£224.7 million), which was impacted by widening of both interest rates and credit spreads. Following the reduction in investment property valuations during H2 2022, they stabilised during H1 2023, with gains of £3.4 million.

Net asset value

	Note	30 Jun 2023 £m	31 Dec 2022 £m restated[1] and unaudited
Net assets[2]	12	**1,785.1**	1,845.3
Goodwill and other intangible assets	12	**(839.3)**	(822.2)
Tangible net assets	12	**945.8**	1,023.1
Closing number of Ordinary Shares (millions)	12	**1,298.6**	1,298.2
Net asset value per share (pence)	12	**137.5**	142.1
Tangible net asset value per share (pence)	12	**72.8**	78.8

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.

Net assets at 30 June 2023 decreased by £60.2 million to £1,785.1 million (31 December 2022: £1,845.3 million) and tangible net assets decreased to £945.8 million (31 December 2022: £1,023.1 million).

Leverage

The Group's financial leverage remained steady at 25.3% (2022: 24.7%).

	30 Jun 2023 £m	31 Dec 2022 £m restated[1] and unaudited
Shareholders' equity	**1,785.1**	1,845.3
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**258.7**	258.6
Total capital employed	**2,390.3**	2,450.4
Financial leverage ratio[2]	**25.3%**	24.7%

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. 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 negative 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. The liability for incurred claims ("**LIC**") reserves are the combination of best estimate of liabilities ("**BEL**") and a risk adjustment, which is set around the 75th percentile and provides a prudence margin on top of the BEL. The BEL is set on a discounted basis and includes an allowance for events not in data ("**ENIDs**"), set by reference to various actuarial scenario assessments. ENIDs also consider other short- and long-term risks not reflected in the actuarial inputs, as well as the actuarial function's view on the uncertainties in relation to the best estimate liabilities.

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 1.5% in Northern Ireland.

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority of cases now 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. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2023.

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. In 2022, the Group reviewed the estimates used to discount PPOs. Given the significant changes both in the current economic environment and the longer term outlook, the Group changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns.

At H1 2023, the real discount rate for PPOs is 0.6% (2022: 0.6%, restated for IFRS 17), the combination of cash flow weighted inflation and discounting of 4.6% and 5.2% respectively, the latter driven by increases in the risk-free yields and the illiquidity premium for the long-term assets backing PPO liabilities.

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, consumer prices inflation was at its highest level for the past decade and is not expected to normalise until at least 2024. 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 scenarios for excess inflation has been considered in the reserving process.

Prior-year reserve releases at H1 2023 were £26.2 million (H1 2022: £141.1 million) with lower releases across all segments. Looking forward, the opportunity for prior-year reserve releases in the short term remains low given the inflationary backdrop.

Net liability for incurred claims

	30 Jun 2023	31 Dec 2022
	£m	£m
		unaudited
Motor	**1,468.8**	1,474.0
Home	**374.5**	409.3
Rescue and other personal lines (excluding run-off partnerships)[1]	**47.2**	78.2
Commercial	**539.5**	550.0
Total ongoing operations	**2,430.0**	2,511.5
Run-off partnerships[1]	**79.6**	56.6
Total	**2,509.6**	2,568.1

Note:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.

Sensitivity analysis – changes in: the discount rate used in relation to PPOs and other claims, 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 and other claims, 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]	
	30 Jun 2023	31 Dec 2022
At 31 December	**£m**	£m
Discount curve - PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**34.0**	36.1
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(44.4)**	(47.1)
Discount curve - other claims[4]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**27.8**	25.4
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(29.1)**	(26.4)
Ogden discount rate[5]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2022: 0.75% compared to minus 0.25%)	**46.5**	42.0
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2022: minus 1.25% compared to minus 0.25%)	**(67.6)**	(57.8)
Claims inflation		
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**65.2**	65.2
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(66.2)**	(66.1)
Risk adjustment[6]		
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	**26.9**	29.5
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	**(30.8)**	(33.8)

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 0.6% 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. The sensitivities relating to an increase or decrease in the yield curve used to discount all reserves excluding PPOs illustrate a movement in the time value of money from the assumed level at the balance sheet dates. The sensitivity has been calculated on the direct impact of the change in the discount curve with all other factors remaining unchanged.
5. 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.
6. The risk adjustment sensitivities are with respect to the discounted net risk adjustment at the balance sheet dates.

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 2023. 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.

Our principal risks are under continuous review and assessment, and with the introductions of the FCA's PPR regulations and Consumer Duty, Strategic and operational risks are seeing increasing trends, impacted by macro-economics changes putting pressure on strategy and the ongoing changes in technology systems, people, and processes.

Principal risks	Risk commentary
Insurance risk is the risk arising from insurance obligations, in relation to the perils covered and the processes used in the conduct of business. It takes account of the uncertainty related to the Group's existing insurance and reinsurance obligations as well as to new business expected to be written. It includes the risk of loss, or of adverse change in the value of insurance liabilities resulting from: – fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements; and – significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (for example. catastrophe risk)	Key drivers of the outlook for Insurance risk across our business plan include reserve, underwriting, distribution, pricing and reinsurance risks. Issues relating to claims inflation, the cost of living crisis, the impact of the FCA's PPR regulations, and the global political situation combined with supply/demand issues following Covid-19 and Brexit have been key areas of focus for the Group in 2023 and the main drivers of the increasing trend in Insurance risk. Claims trends have been significantly impacted by persistent claims inflation, particularly in the Motor market, leading to uncertainty in claims reserving and pricing in 2023 and beyond. Key risk themes relating to this category include the macroeconomic environment, Motor profitability, organisational resilience and agility, and sales risk post implementation of the FCA PPR regulations. We have used scenario testing to understand the potential financial impacts of these risks and continue to monitor them closely. Finally, climate change presents a risk of more frequent extreme events and we are looking to enhance key risk indicators to monitor related risks across Home and Commercial.
Market risk is 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, our exposure to losses as a result of changes in interest rate term structure or volatility, and the key risk theme of the macroeconomic environment. Market risk remains at a heightened but stable level over the term of the Group's Financial Plan (the "**Plan**"). The sustained high interest and inflation levels in the United Kingdom add to the possibility of a recession and add to market volatility. Concerns about the risk of a recession and fiscal policy concerns could affect equity and credit markets within the global economy leading to credit spread increases, foreign exchange rate volatility, interest rate changes and further devaluation of UK property assets. To seek to address this, we have an investment strategy which is approved by the Board and includes limiting exposure to individual asset classes and the amount of illiquid investments we hold. We also use risk reduction techniques such as hedging foreign currency exposures with forward contracts, interest rate swaps to hedge interest rate risks and de-risking the investment portfolio during volatile periods.
Operational risk is 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 relate to Control Environment, Technology and Infrastructure, Change, Cyber and People & Culture.	Key drivers of operational risk continue to be the increased risk in the control environment due to the pace of internal change related activity combined with the ongoing volatility in the external environment. We have in place operational processes and systems, including prevention and detection measures, that seek to ensure that the Group is well placed to absorb and/or adapt to internal or external events. The Group is undertaking various initiatives to reduce its operational risk through the strengthening of controls, further embedding its new motor platform, streamlining change related investment decisions, and improving its use of data, pricing models, as well as the performance and resilience of its IT estate. The external cyber threat landscape has continued to remain volatile globally, with ransomware attacks becoming increasingly sophisticated and causing disruptions to third party supply chains. The business has continued to monitor the external landscape closely, taking proactive measures to introduce new controls, strengthened existing ones, as a response to malicious and unintended threat actors. Finally, the Group continues to focus on improving organisational culture through ongoing reviews of internal operating models, capability, responsibility, accountability, ways of working, as well as new approaches to setting standards around and measuring the behaviours that make up the Group's culture.

Principal risks	Risk commentary
Conduct risk describes the risk of failing to put the customer at the heart of our business, failing to deliver on our commitments and/or failing to ensure that fairness is a natural outcome of what we do and how we do it.	We have maintained a strong culture of delivering on our commitments to our customers. Since the implementation of the FCA's PPR regulations on 1 January 2022, we continue to embed the changes in our core business processes and operating model with a view to ensuring that the right outcomes are being delivered to customers. The Consumer Duty represents a significant shift in the FCA's expectations of firms and applies to all of the Group's regulated products. The Group developed a comprehensive implementation plan which was implemented for existing products and services and future product sales Finally, the Group is aware of the ongoing impact of the rising cost of living on our customers and we continue to take measures in line with the FCA's new finalised guidance to help support customers that are in financial difficulty.
Regulatory and compliance risk describes the risks leading to reputational damage, regulatory or legal censure, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities.	The outlook for regulatory and compliance risk is increasing as financial institutions respond to multiple regulatory change priorities, alongside a challenging external environment covered in strategic risk and insurance risk. Further, regulators are increasingly expecting financial institutions to play a broader role in resolving societal issues, such as income inequality, climate change and diversity and inclusion; creating challenges for insurers to balance commercial and societal outcomes in decision-making, as they seek to meet the needs of different stakeholders. We have maintained an open relationship with our regulators and we remain focused on the key areas of regulatory attention, including implementation of the FCA Consumer Duty, FCA finalised guidance for the support of customers in financial difficulty, FCA review of cost of living support measures in the general insurance market, the PRA 'Dear Chief Actuary' letter from the thematic review of general insurance reserving and capital modelling and the PRA consultation paper on Solvency II reforms. The Group announced on 29 June and 1 September two past business reviews it is undertaking, the former relating to total loss valuations for motor vehicles, covering the period from 1 September 2017 to 17 August 2022, and the latter relating to pricing practices regulations which came into force on 1 January 2022. Remediation is being paid to customers for both matters. An estimate for the required remediation was provided for in the Group's 2022 full year and 2023 half year results. As the past business reviews are yet to be concluded, there is a risk that the ultimate cost of these remediation exercises might exceed current expectations.
Credit risk is 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.	The outlook for credit risk is increasing due to the potential impact on business models from behavioural or societal changes arising from recession and a cost of living crisis. To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures, whilst also considering new future exposures. In addition, we only enter material reinsurance contracts with reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is mainly at least A+. Finally, we also have well defined criteria to determine which customers and brokers are offered and granted credit.
Strategic risk is the risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	Strategic risk is influenced by internal and external developments, including: the UK entering recession; the cost of living crisis; persistently high inflation; an increased level of regulatory concerns and focus, and the potential for new and ongoing geopolitical conflicts impacting the Group's strategic position. The profit warnings in 2022 and January 2023, CEO resignation in January 2023, and the need to rebuild balance sheet resilience has led to an increasing strategic risk for the Group over the Plan period. Whilst completion of the 10% quota share reinsurance arrangement, announced in January 2023, has contributed to restoring capital resilience. The Group's ability to progress with its long-term strategic growth agenda may be restrained until its new CEO joins in the first quarter of 2024. Longer term plans have been put in place to better understand and quantify the potential impact of climate change on the Group.

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and the potential of a 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 Plan.

The Group records emerging risks within a register, categorised by key themes. 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 risk key themes currently being monitored by the emerging risk process are outlined below.

Climate change

The Group recognises that climate change potentially poses material long-term financial and non-financial risks to the business and is receiving increased scrutiny from investors and regulators. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks. DLG is also aware of the liability risks due to climate change when parties who have suffered loss or damage from physical or transition risk factors seek to recover losses from those they hold responsible.

During H1 2023, the Group has continued to embed further controls, targets and reporting around climate change via the Climate Executive Steering Group along with the Task Force for Climate-related Disclosure ("**TCFD**") report.

We continue to monitor these risks closely and to develop our climate change modelling capability. Further details on our risk management approach to climate change are included in the TCFD report contained within the Group's annual report.

Changing customer needs

As consumers face intense pressure on their finances and time, coupled with generational changes, this is expected 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 H1 2023, the Group has worked to implement and embed the Consumer Duty principles, along with continuing to review and understand customers' needs.

Keeping up with digital advancements

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. To mitigate this, the Group is delivering multiple programmes to provide the Group with the capabilities to enable future innovation at pace. In H1 2023 the Group purchased By Miles.

Geopolitical tension

Due to heightened tensions on the world stage, 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, China/ Taiwan), while maintaining a close eye on the political risk landscape.

Automotive technology

New car technologies, such as autonomous vehicles and hydrogen power are in development which, once on UK roads, are 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 will focus on launching new products that will better serve customer needs in the future while engaging with regulators to help shape policies and understand potential impacts for the Group.

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 artificial intelligence ("**AI**") and machine-learning. These trends together could lead to data being used in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes.

The Group is embedding the Data Ethics Framework within the Pricing & Underwriting team's policies and procedures, while providing guardrails to apply across the Group. As new data capabilities are introduced, our monitoring and oversight is designed to ensure adherence to the principles set out in the Framework.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2023

	Notes	**6 months 2023** **£m** **unaudited**	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Insurance revenue	5	**1,603.1**	1,610.0	3,229.1
Insurance service expense	5	**(1,608.8)**	(1,394.9)	(3,145.5)
Expenses from reinsurance contracts held	5	**(78.7)**	(89.0)	(165.7)
Insurance claims (payable to)/recoverable from reinsurance contracts held	5	**(25.0)**	38.9	96.4
Insurance service result	5	**(109.4)**	165.0	14.3
Net investment return	6	**74.1**	(170.5)	(227.1)
Net finance income from insurance contracts issued	6	**22.8**	67.5	102.4
Net finance expenses from reinsurance contracts issued	6	**(39.4)**	(47.2)	(101.5)
Net investment return and net insurance finance result	6	**57.5**	(150.2)	(226.2)
Other operating income		**5.1**	3.9	8.3
Other operating expenses	7	**(22.3)**	(16.4)	(77.8)
Other finance costs	8	**(7.2)**	(13.4)	(20.4)
Loss before tax		**(76.3)**	(11.1)	(301.8)
Tax credit	9	**24.4**	15.8	69.9
(Loss)/profit for the period attributable to the owners of the Company		**(51.9)**	4.7	(231.9)
Loss per share:				
Basic (pence)	11	**(4.6)**	(0.3)	(19.1)
Diluted (pence)	11	**(4.6)**	(0.3)	(18.8)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023

	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Loss for the period attributable to the owners of the Company	**(51.9)**	4.7	(231.9)
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement loss on defined benefit pension scheme	**—**	—	(9.8)
Fair value gain/(loss) on equity investments measured at FVOCI	**0.2**	0.4	(0.6)
Less: realised loss on equity investments measured at FVOCI	**(0.6)**	—	—
Tax relating to items that will not be reclassified	**—**	—	2.5
	(0.4)	0.4	(7.9)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	**(0.9)**	0.6	0.3
	(0.9)	0.6	0.3
Other comprehensive (loss)/income for the period net of tax	**(1.3)**	1.0	(7.6)
Total comprehensive loss for the period attributable to the owners of the Company	**(53.2)**	5.7	(239.5)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	**30 Jun 2023 £m unaudited**	31 Dec 2022 £m restated[1] and unaudited
Assets			
Goodwill and other intangible assets		**839.3**	822.2
Property, plant and equipment		**91.4**	83.7
Right-of-use assets		**90.1**	73.0
Investment property		**281.9**	278.5
Reinsurance contract assets	14.2	**946.6**	1,049.7
Deferred tax assets		**113.3**	89.0
Current tax assets		**68.2**	71.9
Other receivables		**205.1**	170.3
Prepayments, accrued income and other assets		**99.0**	104.8
Derivative financial instruments		**36.8**	31.3
Retirement benefit asset		**1.6**	1.6
Financial investments	15	**3,074.0**	3,696.4
Cash and cash equivalents	16	**1,600.9**	1,003.6
Assets held for sale		**40.6**	40.9
Total assets		**7,488.8**	7,516.9
Shareholders' equity			
Shareholders' equity		**1,785.1**	1,845.3
Tier 1 notes		**346.5**	346.5
Total equity		**2,131.6**	2,191.8
Liabilities			
Subordinated liabilities		**258.7**	258.6
Insurance contract liabilities	14.1	**4,669.7**	4,676.0
Reinsurance contract liabilities	14.2	**—**	0.6
Borrowings	16	**95.8**	65.2
Derivative financial instruments		**6.2**	29.6
Provisions		**64.4**	64.3
Trade and other payables		**163.3**	149.2
Lease liabilities		**99.1**	81.6
Total liabilities		**5,357.2**	5,325.1
Total equity and liabilities		**7,488.8**	7,516.9

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Share capital (note 13)	Employee trust shares	Capital reserves	AFS revaluation reserve	Equity investments revaluation reserve	Foreign exchange translation reserve	Retained earnings	Shareholders' equity	Tier 1 notes	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2022 (audited)	145.2	(41.4)	1,454.8	7.5	1.5	(0.3)	982.9	2,550.2	346.5	2,896.7
First application of IFRS17	—	—	—	—	—	—	(96.1)	(96.1)	—	(96.1)
First application of IFRS9	—	—	—	(7.5)	—	—	4.0	(3.5)	—	(3.5)
Balance at 1 January 2022 (restated[1] and unaudited)	145.2	(41.4)	1,454.8	—	1.5	(0.3)	890.8	2,450.6	346.5	2,797.1
Loss for the year	—	—	—	—	—	—	(231.9)	(231.9)	—	(231.9)
Other comprehensive (loss)/income	—	—	—	—	(0.6)	0.3	(7.3)	(7.6)	—	(7.6)
Total comprehensive (loss)/income for the period	—	—	—	—	(0.6)	0.3	(239.2)	(239.5)	—	(239.5)
Dividends and appropriations paid (note 12)	—	—	—	—	—	—	(314.5)	(314.5)	—	(314.5)
Shares acquired by employee trusts	—	(11.0)	—	—	—	—	—	(11.0)	—	(11.0)
Shares cancelled following buyback	(2.1)	—	2.1	—	—	—	(50.1)	(50.1)	—	(50.1)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	—	9.6	9.6	—	9.6
Shares distributed by employee trusts	—	13.4	—	—	—	—	(13.4)	—	—	—
Tax on share-based payments	—	—	—	—	—	—	0.2	0.2	—	0.2
Total transactions with equity holders	(2.1)	2.4	2.1	—	—	—	(368.2)	(365.8)	—	(365.8)
Balance at 31 December 2022 (restated[1] and unaudited)	143.1	(39.0)	1,456.9	—	0.9	—	283.4	1,845.3	346.5	2,191.8
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(51.9)**	**(51.9)**	**—**	**(51.9)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(0.4)**	**(0.9)**	**—**	**(1.3)**	**—**	**(1.3)**
Total comprehensive loss for the period	**—**	**—**	**—**	**—**	**(0.4)**	**(0.9)**	**(51.9)**	**(53.2)**	**—**	**(53.2)**
Dividends and appropriations paid (note 12)	**—**	**—**	**—**	**—**	**—**	**—**	**(8.3)**	**(8.3)**	**—**	**(8.3)**
Shares acquired by employee trusts	**—**	**(6.0)**	**—**	**—**	**—**	**—**	**—**	**(6.0)**	**—**	**(6.0)**
Shares cancelled following buyback	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Credit to equity for equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**7.5**	**7.5**	**—**	**7.5**
Shares distributed by employee trusts	**—**	**7.9**	**—**	**—**	**—**	**—**	**(7.9)**	**—**	**—**	**—**
Tax on share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**(0.2)**	**(0.2)**	**—**	**(0.2)**
Total transactions with equity holders	**—**	**1.9**	**—**	**—**	**—**	**—**	**(8.9)**	**(7.0)**	**—**	**(7.0)**
Balance at 30 June 2023 (unaudited)	**143.1**	**(37.1)**	**1,456.9**	**—**	**0.5**	**(0.9)**	**222.6**	**1,785.1**	**346.5**	**2,131.6**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Share capital (note 13)	Employee trust shares	Capital reserves	AFS revaluation reserve	Equity investments revaluation reserve	Foreign exchange translation reserve	Retained earnings	Shareholders' equity	Tier 1 notes	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2022 (audited)	145.2	(41.4)	1,454.8	7.5	1.5	(0.3)	982.9	2,550.2	346.5	2,896.7
First application of IFRS17	—	—	—	—	—	—	(96.1)	(96.1)	—	(96.1)
First application of IFRS9	—	—	—	(7.5)	—	—	4.0	(3.5)	—	(3.5)
Balance at 1 January 2022 (restated[1] and unaudited)	145.2	(41.4)	1,454.8	—	1.5	(0.3)	890.8	2,450.6	346.5	2,797.1
Profit for the period	—	—	—	—	—	—	4.7	4.7	—	4.7
Other comprehensive income	—	—	—	—	0.4	0.6	—	1.0	—	1.0
Total comprehensive income for the period	—	—	—	—	0.4	0.6	4.7	5.7	—	5.7
Dividends and appropriations paid (note 12)	—	—	—	—	—	—	(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	(2.1)	4.7	2.1	—	—	—	(257.5)	(252.8)	—	(252.8)
Balance at 30 June 2022 (restated[1] and unaudited)	143.1	(36.7)	1,456.9	—	1.9	0.3	638.0	2,203.5	346.5	2,550.0

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2023

	Notes	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	31 Dec 2022 £m restated[1] and unaudited
Net cash generated from operating activities before investment of insurance assets		**(33.1)**	(34.8)	(60.3)
Cash generated from investment of insurance assets		**718.7**	394.2	860.5
Net cash generated from operating activities		**685.6**	359.4	800.2
Cash flows used in investing activities				
Purchases of goodwill and other intangible assets		**(65.1)**	(54.6)	(108.4)
Purchases of property, plant and equipment		**(16.0)**	(7.0)	(11.7)
Proceeds on disposals of assets held for sale		**—**	19.3	19.3
Net cash flows from acquisition/disposal of subsidiaries and joint-ventures		**1.1**	—	—
Net cash used in investing activities		**(80.0)**	(42.3)	(100.8)
Cash flows used in financing activities				
Dividends and appropriations paid	10	**(8.3)**	(207.2)	(314.5)
Repayment of subordinated liabilities		**—**	(250.0)	(250.0)
Other finance costs (including lease interest)		**(18.7)**	(16.2)	(23.0)
Principal element of lease payments		**(5.9)**	(4.8)	(8.9)
Purchase of employee trust shares		**(6.0)**	(4.0)	(11.0)
Share buyback		**—**	(50.1)	(50.1)
Net cash used in financing activities		**(38.9)**	(532.3)	(657.5)
Net increase/(decrease) in cash and cash equivalents		**566.7**	(215.2)	41.9
Cash and cash equivalents at the beginning of the year	16	**938.4**	896.5	896.5
Cash and cash equivalents at the end of the period	16	**1,505.1**	681.3	938.4

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

1. General information

The financial information for the year ended 31 December 2022 and included in the condensed consolidated financial statements does not constitute statutory accounts as defined in S.434 of the Companies Act 2006. These condensed interim financial statements, which include the comparative information for the periods ending 30 June 2022 and 31 December 2022, have been subject to review by the appointed External Auditors, but have not been audited.

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 (the "**interim 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. The accounting policies applied in the interim financial statements are consistent with those set out in the Group's 2022 annual financial statements, with the exception of new accounting standards which were effective for periods beginning on or after 1 January 2023. The nature and effect of these changes are disclosed in note 2 and 21.

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, which runs until 2026, The Group's Risk Function has carried out an assessment of the risks to the Strategic Plan (the "**Plan**") and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, delay in pricing actions, increase in operating expenses and a fall in asset values. A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of UK Insurance Limited, the Group's principal underwriter, that is. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test. In the moderate and severe scenarios, it was concluded that the Group's and UK Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions.

The Strategic Plan has been refreshed as part of the Group forecasting process to reflect the impact of the latest pricing actions, particularly in Motor, however recognising that the opportunity for prior-year reserve releases in the short-term remains low given current inflation scenarios. The refresh of the Plan continues to support the conclusion that the Group will continue to maintain levels of solvency in line with its risk appetite. In addition, a 1-in-20 "reasonable worse case" has been applied to the refreshed forecast, comprising further motor claims inflation, a reinsurance retention weather catastrophe loss and a macroeconomic asset shock, which remain the key risks to the Strategic Plan. This concluded that the Group's solvency capital requirement would not be breached following the implementation of management actions.

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 6 September 2023 (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 Adoption of new and revised standards

The Group has adopted the following new amendments to IFRSs and International Accounting Standards ("**IASs**") that became mandatorily effective for the Group for the first time during 2023. The Group has adopted the requirements of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' from 1 January 2023 on a fully retrospective basis in these interim financial statements for the first time. The impact of adoption of the standards and key changes are discussed below:

- transition approaches used and their impact;
- new accounting policies related to IFRS 17 and IFRS 9; and
- significant accounting judgements and sources of estimation uncertainty.

2.3 (a) Adoption of IFRS 17: transition approach and impact

The Group has adopted IFRS 17 from 1 January 2023, with 2022 comparatives restated. IFRS 17 does not impact the fundamental economics of the Group's business, financial strength, claims paying ability, or dividend capacity. Thus, there is no change to the Group's business operations. IFRS 17 results in a significant change in the accounting, presentation, and disclosures of the Group's financial results. The key changes are summarised below.

The insurance service result has improved, due to the introduction of discounting for claims in the period and reclassification of certain expenses from attributable to non-attributable expenses, in line with the requirements of the standard. This has resulted in non-attributable expenses being recognised outside of the insurance service result.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

Under IFRS 17, the Group has taken the option to expense insurance acquisition cash flows when they are incurred. Under IFRS 4, such an acquisition costs were recognised and presented separately as 'deferred acquisition costs'.

The Group uses the Premium Allocation Approach ("**PAA**") to simplify the measurement of groups of insurance contracts and reinsurance contracts provided that relevant PAA eligibility criteria are met.

The carrying amount of a group of insurance contracts issued is the sum of liability for remaining coverage ("**LRC**") and liability for incurred claims ("**LIC**"). In assessing liabilities for remaining coverage, the PAA aligns closely with the Group's previous accounting approach under IFRS 4. However, IFRS 17 incorporates several key changes compared to IFRS 4. Previously, PPO reserves were discounted to present value, reflecting the time value of money. Since transition to IFRS 17 all claims reserves will be discounted to present value. Additionally, an explicit risk adjustment ("**RA**") is included in the calculation to account for non-financial risks associated with claims. The Group has chosen to take the full effect of the time value of money and changes in the time value of money and financial risk to the income statement.

The key changes noted below are those that are significant on transition to IFRS 17.

Disclosures are more detailed and granular:

- The presentation of the primary statements has changed including the introduction of new required line items. New requirements include insurance revenue, insurance service expenses and net expenses from reinsurance contracts in the insurance service result. The presentation provides analysis of the various components related to insurance activities. As a result, the consolidated income statement no longer includes the presentation of gross and net written premium.
- New accounting policies as a result of transition to IFRS 17 and related accounting treatments are summarised in note 2 (b).
- Significant judgements, and changes in those judgements, and critical estimates when applying the standard is summarised in note 3.
- Other disaggregated qualitative and quantitative information as required by IFRS 17 (for example. reconciliation of insurance contract liabilities for movement in liability for remaining coverage and liability for incurred claims) is provided in the notes to the interim financial statements (see note 14).

The fully retrospective approach was applied to the insurance contracts and reinsurance contracts in force at the transition date 1 January 2022. The application of the transition approach involved:

- Comprehensive review, identification, and measurement of groups of insurance contracts and reinsurance contracts. The assessment was conducted as if the requirements of IFRS 17 were always in effect. As a result, any balances that would not have existed under the constant application of IFRS 17 have been removed. The approach ensures compliance with the retrospective application of IFRS 17, bringing the Group's financial reporting in line with the principles of the standard;
- PAA eligibility assessment was carried out for insurance and reinsurance contracts in the 2021 and prior unexpired groups, specifically those with coverage periods exceeding 12 months. The assessment confirmed that these contracts satisfied the criteria for PAA eligibility.

On the transition date, 1 January 2022, the Group has determined the quantitative impact in the following key areas.

Equity: net shareholders equity decreased by £96.1 million, primarily as a result of the policy choice to expense acquisition costs. This was partially offset by the inclusion of discounting in the LIC.

Net insurance contract liabilities: decreased primarily due to the introduction of discounting, for non-PPO claims reserves, partially offset by the reclassification of balances, such as IPT payable, from trade and other payables into net insurance contract liabilities.

Deferred tax liability: on transition, the effect of the above changes on the deferred tax liability was a £29.2 million reduction, sufficient to reduce the existing deferred tax liability to £nil and to create a deferred tax asset.

The reconciliation of opening to closing equity under IFRS 17 and the resulting impact on key financial statement line items is disclosed in note 21.1.

2.3 (b) Adoption of IFRS 9: transition approach and impact

The Group has adopted IFRS 9 retrospectively from 1 January 2023 and comparatives for 2022 have been restated.

The adoption of IFRS 9 has resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets, which requires a calculation for an expected credit loss ("**ECL**") for financial assets held at amortised cost.

On the transition date, 1 January 2022, the net impact recognised in equity was a decrease of £3.5 million, driven by the recognition of the ECL under IFRS 9 for financial assets carried at amortised cost, with further details included in notes 15 and 21.1.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

Classification and measurement of financial instruments

The Group's debt instruments of £4,084.6 million that were classified as AFS under IAS 39 'Financial Instruments: Recognition and Measurement' as at 1 January 2022 (the opening date of the comparative period) satisfy the conditions for classification as 'held to collect and sell' under IFRS 9 to be measured at fair value through other comprehensive income ("**FVOCI**"). However, the Group has applied the IFRS 9 option to designate debt instruments, that would otherwise be recognised as FVOCI as fair value through profit or loss ("**FVTPL**"), to reduce the accounting mismatch that would arise from measuring debt instruments as FVOCI and insurance liabilities as FVTPL and recognising insurance finance income or expense in profit or loss. The AFS reserve of £7.5 million was transferred to retained earnings on 1 January 2022.

There are no other reclassifications as a result of applying IFRS 9 as:

– assets previously classified as HTM and loans and receivables satisfy the IFRS 9 condition to be classified as 'held-to-collect'. These assets are measured at amortised cost as they are debt instruments with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and sales are infrequent or insignificant;
– derivatives continue to be measured at FVTPL;
– equity investments will continue to be valued at either FVOCI when designated as such at initial recognition or FVTPL; and
– financial liabilities continue to be measured at amortised cost.

The following table shows the differences in the carrying amounts of financial instruments from their previous measurement category under IAS 39 to the measurement categories on transition to IFRS 9 on 1 January 2022.

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount £m**	**Measurement category**	**Carrying amount £m**
Financial assets				
Debt securities	Available for sale	4084.6	Fair value through profit and loss	4084.6
Debt securities	Held to maturity	91.2	Amortised cost	90.0
Loans and receivables	Loans and receivables (amortised cost)	451.6	Amortised cost	449.2
Equity investments	Fair value through other comprehensive income	6.2	Fair value through other comprehensive income	6.2
Equity investments	Fair value through profit or loss	0.8	Fair value through profit or loss	0.8
Derivative financial instruments	Fair value through profit and loss	35.9	Fair value through profit and loss	35.9
Cash and cash equivalents	Amortised cost	955.7	Amortised cost	955.7
Financial liabilities				
Borrowings	Amortised cost	59.2	Amortised cost	59.2
Derivative financial instruments	Fair value through profit and loss	19.5	Fair value through profit and loss	19.5
Trade and other payables	Amortised cost	133.9	Amortised cost	133.9
Subordinated	Amortised cost	513.6	Amortised cost	513.6

Expected credit losses

The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under IAS 39. The Group has established a default probability model for its debt securities held at amortised cost and loans and receivables. ECLs for other receivables are based on a probability matrix that incorporates all available information relevant to the assessment of credit risk, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

The adoption of IFRS 9 has resulted in an ECL, inclusive of the effect of tax, of £3.5 million at 1 January 2022.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

2.3 (c) Estimated impact of the transition to IFRS 17 and IFRS 9 disclosed in the 2022 Annual Report and Accounts (the "Report")

Following the publication of the 2022 Report the Group has reassessed its reserving methodology for events not in Data ("**ENIDs**"). To ensure consistency in the recognition of ENIDs between Solvency II and IFRS17, the Group has taken the decision to align the IFRS17 ENIDs methodology with that used in Solvency II. This change in methodology has further reduced the Group's total equity of £2,896.7 million on the opening balance sheet as at 1 January 2022 by £39.4 million to £2,797.1 million from the estimated financial impact of adoption of IFRS 17 and IFRS 9 of £60.2 million disclosed in the 2022 Annual report.

2.3 (d) New accounting policies related to IFRS 17 and IFRS 9

(a) IFRS 17 – Significant accounting policies

Insurance and reinsurance contracts classification

Contract classification, as disclosed in policy note 1.3 of the Group's Annual Report and Accounts, remains unchanged on adoption of IFRS 17. The Group issues short-term motor, home, rescue, pet, travel and commercial insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders.

The Group has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk. The Group cedes insurance risk by reinsurance in the normal course of business.

Insurance contracts accounting treatment

(i) Separating components from insurance and reinsurance contracts

The Group assesses its insurance contracts to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Group applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Group's contracts do not include any distinct components that require separation.

(ii) Level of aggregation

The Group has taken a simplified approach for level of aggregation to accommodate operational processes efficiently as having fewer groups of contracts reduces the operational burden in terms of the numbers of calculations required. The level of aggregation for the Group is determined firstly by grouping contracts into portfolios which, with some limited exceptions, are set as the reserving classes of each legal entity. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories:

i. onerous contracts;
ii. contracts with no significant risk of becoming onerous; and
iii. the remainder group of contracts in the portfolio.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. This occurs if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium. As all inwards contracts are measured under the PAA model, due to the short-term nature of the contracts, therefore the Group takes the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The grouping of insurance contracts is determined at initial recognition and is not subsequently reassessed.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held within a calendar year into three groups that comprise of:

i. contracts for which there is a net gain at initial recognition, if any;
ii. contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and
iii. remaining contracts in the portfolio.

(iii) Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

– the beginning of the coverage period of the group of contracts;
– the date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
– for a group of onerous contracts, when facts and circumstances indicate that the group is onerous.

The Group recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

– the beginning of the coverage period of the group of reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
– the date the Group recognises an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held at or before that date.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

(iv) Contract boundary

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and therefore may change over time.

The contract boundary for a reinsurance contract is dependent on the terms and conditions of the reinsurance contract and therefore may not necessarily be the same as for the underlying contracts. For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive insurance contract services from the reinsurer.

The Group's quota share reinsurance agreements and Motor XOL risk attaching contracts have a duration of four years and two years respectively. Therefore, these contracts do not automatically qualify for the PAA, as the coverage period is greater than one year. Therefore, a separate PAA eligibility assessment is performed. The detail of assessment, judgement applied and conclusion reached is covered below.

*(v) Measurement – Premium Allocation Approach ("**PAA**")*

The Group applies the PAA to all the insurance contracts that it issues and expects to apply it to reinsurance contracts that it holds, as:

- the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- for contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced by applying the General Measurement Model. For insurance contracts, this related to an immaterial number of Motor contracts that were in force under IFRS 4 on transition; for reinsurance contracts, this is in respect of the Group's Motor excess of loss treaty. For the Group's quota share and Motor XOL reinsurance agreement an assessment has been performed and the PAA approach has been adopted on the grounds of materiality.

Insurance contracts – initial measurement

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group applies discounting and includes an explicit risk adjustment for non-financial risk.

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- the premiums, if any, received at initial recognition; plus
- any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Group performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Group recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Group for the liability for remaining coverage for any such onerous group depicting the losses recognised.

Reinsurance contracts held – initial measurement

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

Insurance contracts – subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as:

- the liability for remaining coverage at the beginning of the period; plus
- premiums received in the period; minus
- the amount recognised as insurance revenue for the services provided in the period.

The Group does not adjust the liability for remaining coverage for insurance contracts issued for the effect of the time value of money, because insurance premiums are due within one year of the coverage period.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows; they reflect current estimates from the perspective of the Group and include an explicit adjustment for non-financial risk (the risk adjustment). The Group adjusts the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims, including those that are expected to be paid within one year of being incurred. The Group has chosen to take the effect of the time value of money and changes in the time value of money and financial risk to the income statement (see insurance finance income and expense below).

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held. The Group adjusts the remaining coverage for reinsurance contracts held for the effect of the risk of the reinsurer's non-performance.

Insurance acquisition cash flows for insurance contracts issued

The Group has taken the option to expense insurance acquisition cash flows as they are incurred. This includes for a small number of contracts where the coverage period exceeds a period of twelve months (see above) and there are no material amounts of acquisition costs relating to these contracts. This policy differs to the Group's previous policy of deferring acquisition costs over a 12-month period.

Insurance contracts – modification and derecognition

The Group derecognises insurance contracts when:

- the rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired); or
- the contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification with the contract as an adjustment to the estimate of fulfilment cash flows.

(vi) Presentation

The Group presents separately, in the consolidated balance sheet, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Group disaggregates the total amount recognised in the income statement and insurance service result, comprising insurance revenue and insurance service expense and insurance finance income or expenses. The Group does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Group separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. The LRC is not discounted, as the Group expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the Group has chosen not to adjust the LRC to reflect the time value of money and the effect of financial risk.

Insurance service expenses

Insurance service expenses include the following:

- incurred claims; and
- other incurred directly attributable expenses, such as marketing and acquisition costs.

Other expenses not included above are included in other operating expenses in the consolidated income statement.

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts in respect of incurred claims arising from:

- the effect of the time value of money and changes in the time value of money. This mainly comprises interest accreted on the LIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates (i.e discount rates) and the inflation assumptions for PPOs (which are predominantly inflated with respect to the ASHE 6115 index).

The Group does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVTPL.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

Net income or expense from reinsurance contracts held

The Group presents separately on the face of the income statement the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and treats amounts not dependent on the underlying claims, such as ceding commissions, as a reduction in the premiums paid to the reinsurer. Additionally, the allocation of premiums paid is not presented as a reduction on the face of the income statement. For the reinsurance agreements (that is: Quota Share and Motor XOL risk attaching contracts), the Group has applied the policy to disaggregate the expenses and claims recoveries for reinsurance contracts held separately on the income statement.

(b) IFRS 9 – Significant accounting policies

Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, FVOCI or FVTPL, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income is accounted for using the effective interest method. Such assets held by the Group include some of the Group's debt security portfolio, loans and receivables, trade and other receivables, and cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for derivative financial liabilities, which are held at fair value.

Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs.

The Group elects at initial recognition to account for its equity instruments at FVOCI. For these investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment. The Group has one equity investment which is measured at fair value through other comprehensive income, being an investment in unlisted insurtech-focused equity funds.

Financial instruments measured at fair value through profit or loss

Financial assets are classified as FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. The Group has elected to account for its corporate and sovereign debt portfolio as FVTPL to reduce the accounting mismatch that would otherwise arise with insurance contract liabilities being measured at FVTPL. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each balance sheet date.

Financial assets measured at FVTPL are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within the net investment result in the period in which they occur.

Financial liabilities are measured at FVTPL where they are trading liabilities such as derivative financial instruments. Financial liabilities measured at FVTPL are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the income statement in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques.

Impairment of financial assets

The Group assesses the expected credit losses associated with its financial assets measured at amortised cost. The measurement of credit impairment is based on an ECL model and depends upon whether there has been a significant increase in credit risk.

The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

For those credit exposures for which credit risk has not increased significantly since initial recognition, the Group measures loss allowances at an amount equal to the total expected credit losses resulting from default events that are possible within 12 months after the reporting date. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the Group measures and recognises an allowance at an amount equal to the expected credit losses over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). If the financial asset becomes credit-impaired (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Group will recognise a Lifetime ECL. ECLs are derived from unbiased and probability-weighted estimates of expected loss.

2. Accounting policies continued

2.3 Adoption of new and revised standards continued

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL are recognised in the income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance. ECL impairment charges are recognised in the income statement within the investment return.

Note 16 explains how the Group assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

3. Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies have been updated following adoption of IFRS 17 and IFRS 9, with the exception of fair value of investment properties, which remains a source of estimation uncertainty and is not affected by the transition to IFRS 17 and IFRS 9.

3.1. IFRS 17: Insurance and reinsurance contracts

Level of aggregation

Accounting judgement

The Group defines a portfolio as insurance contracts subject to similar risks and managed together. Contracts within the same product line are expected to be in the same portfolio as they have similar risks and are managed together. The assessment of which risks are similar and how contracts are managed requires the exercise of judgement.

The Group manages insurance contracts issued by product. The Group has taken a simplified approach and exercised judgement to determine at what level of granularity reasonable and supportable information is available to identify contracts. Contracts are then grouped together into different sub-groups for IFRS 17 reporting and disclosure purposes based on the criteria of similar risks which are managed together, the nature of product and profitability. Accordingly, insurance contacts are aggregated into groups for measurement purposes. All inwards contracts are measured under the PAA model and takes the standard’s default assumption that no groups are onerous unless facts and circumstances indicate otherwise.

Estimates of future cash flows

Onerous contracts

Source of estimation uncertainty

Under the PAA measurement approach there is a presumed profitability and the Group assumes that no material contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. This is based on an assessment of future cash flows, which may be uncertain due to their timing, size and/or probability. If at any time during the coverage period the facts and circumstances indicate that a group of insurance contracts is onerous, the Group establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group as determined above. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero. Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, and the Group has a corresponding reinsurance held contract, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

Source of estimation uncertainty

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices, however these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations. The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group’s previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group applies discounting and includes an explicit risk adjustment for non-financial risk. A sensitivity analysis, which shows the impact of an increase and decrease in claims inflation of 200 bps over a two-year period is included in the Chief Financial Officer review in the Reserving section.

Risk adjustment

Accounting judgement

A risk adjustment for non-financial risk is determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It is determined at Group level and allocated to groups of contracts based on the size of their reserves. The risk adjustment for non-financial risk is determined using a confidence level technique. The risk adjustment is applied to the liability for incurred claims but not to the liability for remaining coverage.

3. Critical accounting judgements and key sources of estimation uncertainty continued

The Group estimates the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level is the 75th percentile for the liability for incurred claims. The risk adjustment is derived using the reserve risk distribution calculated in the internal economic capital model and consequently, is subject to model and parameter uncertainty. A sensitivity which demonstrates the impact of the confidence level being at the 80th percentile on profit before tax is included in the Chief Financial Officer review, in the Reserving section.

Discount rates

Accounting judgement

IFRS 17 requires entities to determine discount rates using either the 'bottom up' or 'top down' approach. The 'top down' approach involves using discount rate curves derived from a portfolio of reference assets adjusted to remove all characteristics of the assets that are not present in insurance contracts, but not requiring to eliminate the illiquidity premium. The Group selected to apply the 'bottom up' approach which requires the use of risk-free rate curves and adding the illiquidity premium. The standard does not specify how to derive the illiquidity premium.

The Group determines the risk-free discount rate using the Solvency II risk-free rates sourced from the Bank of England. For cash flows that are not in respect of PPOs, a small illiquidity premium is added to the risk-free rate, reflecting the short settlement tail. For PPOs, to reflect the different liquidity characteristics of the cash flows, the risk-free yield curves are adjusted by a generally higher illiquidity premium. The illiquidity premium is determined by using a fundamental spread approach by deducting the risk-free rate and credit risk premium from corresponding corporate bond reference portfolios. For non-PPOs, the reference portfolio is A-rated bonds with terms of 1 to 3 years and for PPOs, the reference portfolio is BBB-rated bonds with a remaining term of 15 or more years. Judgement is applied when determining the illiquidity premium with respect to allowances for past and future trends, considering changes in the economic environment.

Yield curves used to discount PPO and Non-PPO cash flows

Spot rate	1 year	3 year	15 year
PPOs	7.46 %	7.03 %	5.43 %
Non-PPOs	6.26 %	5.83 %	4.23 %

The impact of a 100bps change in the discount rate is shown in the Chief Financial Officer review, in the Reserving section.

3.2. IFRS 9: Financial instruments

Classification of financial instruments

Accounting judgement

The Group exercises judgement in assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales and has concluded on the classification category of each portfolio of financial instrument in accordance with IFRS 9.

Other than in relation to the implementation of IFRS 17 and IFRS 9, there have been no significant changes in the basis upon which judgement and estimates have been determined, compared to that applied at 31 December 2022. Other key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the interim financial statements are further disclosed in note 2 of the Annual Report and Accounts for the year ended 31 December 2022.

4. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the period ended 30 June 2023 (unaudited).

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Insurance revenue	744.6	262.4	137.2	388.0	**1,532.2**	70.9	**1,603.1**
Insurance service expenses	(865.7)	(218.5)	(110.2)	(327.2)	**(1,521.6)**	(87.2)	**(1,608.8)**
Expenses from reinsurance contracts held	(29.5)	(14.9)	(1.8)	(31.9)	**(78.1)**	(0.6)	**(78.7)**
Insurance claims (payable to)/recoverable from reinsurers	(33.2)	3.3	—	4.0	**(25.9)**	0.9	**(25.0)**
Insurance service result	(183.8)	32.3	25.2	32.9	**(93.4)**	(16.0)	**(109.4)**
Net investment return	45.5	8.0	2.2	17.8	**73.5**	0.6	**74.1**
Net finance expenses from insurance contracts	24.1	(1.6)	0.8	(0.1)	**23.2**	(0.4)	**22.8**
Net finance income from reinsurance contracts held	(36.6)	0.1	—	(2.9)	**(39.4)**	—	**(39.4)**
Net investment return and net insurance finance result	33.0	6.5	3.0	14.8	**57.3**	0.2	**57.5**
Other operating income	(2.3)	0.2	6.7	0.5	**5.1**	—	**5.1**
Other operating expenses	(7.1)	(1.3)	(5.7)	0.9	**(13.2)**	(0.3)	**(13.5)**
(Loss)/earnings before restructuring and one-off costs	(160.2)	37.7	29.2	49.1	**(44.2)**	(16.1)	**(60.3)**
Restructuring and one-off costs[2]							**(8.8)**
Other finance costs							**(7.2)**
Loss before tax							**(76.3)**

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2023[3] (unaudited).

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Goodwill	134.0	45.8	28.7	10.1	**218.6**	—	**218.6**
Assets held for sale	25.5	4.9	1.2	8.2	**39.8**	0.8	**40.6**
Other segment assets	4,001.0	765.4	214.7	1,184.9	**6,166.0**	117.0	**6,283.0**
Reinsurance contract assets	855.9	6.9	(0.5)	83.2	**945.5**	1.1	**946.6**
Insurance contract liabilities	(2,942.1)	(568.8)	(141.8)	(923.6)	**(4,576.3)**	(93.4)	**(4,669.7)**
Other segment liabilities	(433.1)	(83.7)	(20.9)	(136.0)	**(673.7)**	(13.8)	**(687.5)**
Segment net assets	**1,641.2**	**170.5**	**81.4**	**226.8**	**2,119.9**	**11.7**	**2,131.6**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
2. See glossary on page 61 for definitions.
3. This segmental analysis 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 2022 (restated[1] and unaudited).

	Motor	Home	RoPL[2,3]	Commercial	**Total Group - ongoing operations[2]**	Run-off partnerships[2]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Insurance revenue	791.4	289.2	143.6	334.2	1,558.4	51.6	1,610.0
Insurance service expenses	(732.4)	(220.8)	(113.4)	(275.3)	(1,341.9)	(53.0)	(1,394.9)
Expenses from reinsurance contracts held	(45.0)	(12.7)	(1.2)	(29.8)	(88.7)	(0.3)	(89.0)
Insurance claims recoverable from/(payable to) reinsurers	39.2	0.2	(0.2)	(0.5)	38.7	0.2	38.9
Insurance service result	53.2	55.9	28.8	28.6	166.5	(1.5)	165.0
Net investment return	(99.5)	(28.3)	(6.8)	(33.8)	(168.4)	(2.1)	(170.5)
Net finance expenses from insurance contracts	51.6	4.6	1.1	10.2	67.5	—	67.5
Net finance income from reinsurance contracts held	(43.2)	(0.3)	—	(3.7)	(47.2)	—	(47.2)
Net investment return and net insurance finance result	(91.1)	(24.0)	(5.7)	(27.3)	(148.1)	(2.1)	(150.2)
Other operating income	(2.7)	0.3	4.9	1.4	3.9	—	3.9
Other operating expenses	(7.8)	(1.2)	(3.5)	0.4	(12.1)	(0.3)	(12.4)
(Loss)/earnings before restructuring and one-off costs	(48.4)	31.0	24.5	3.1	10.2	(3.9)	6.3
Restructuring and one-off costs[3]							(4.0)
Other finance costs							(13.4)
Loss before tax							(11.1)

The table below analyses the Group's assets and liabilities by reportable segment for the period ended 30 June 2022 (restated[1] and unaudited).

	Motor	Home	RoPL[2,3]	Commercial	**Total Group - ongoing operations[2]**	Run-off partnerships[2]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Goodwill	130.4	45.8	28.7	10.1	215.0	—	215.0
Assets held for sale	14.0	2.2	0.9	4.3	21.4	0.4	21.8
Other segment assets	4,250.9	646.2	281.1	1,249.4	6,427.6	138.0	6,565.6
Reinsurance contract assets	986.2	12.5	1.2	97.0	1,096.9	0.8	1,097.7
Insurance contract liabilities	(2,953.4)	(470.6)	(187.5)	(916.5)	(4,528.0)	(91.9)	(4,619.9)
Other segment liabilities	(466.9)	(74.4)	(29.6)	(144.9)	(715.8)	(14.4)	(730.2)
Segment net assets	1,961.2	161.7	94.8	299.4	2,517.1	32.9	2,550.0

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
3. See glossary on page 61 for definitions.
4. This segmental analysis 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 2022 (restated[1] and unaudited).

	Motor	Home	RoPL[2,3]	Commercial	**Total Group - ongoing operations[2]**	Run-off partnerships[2]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Insurance revenue	1,555.3	560.7	282.1	708.2	3,106.3	122.8	3,229.1
Insurance service expenses	(1,636.2)	(540.8)	(223.4)	(612.4)	(3,012.8)	(132.7)	(3,145.5)
Expenses from reinsurance contracts held	(77.2)	(26.5)	(2.3)	(59.0)	(165.0)	(0.7)	(165.7)
Insurance claims recoverable from/(payable to) reinsurers	87.4	3.1	(0.7)	6.6	96.4	—	96.4
Insurance service result	(70.7)	(3.5)	55.7	43.4	24.9	(10.6)	14.3
Net investment return	(140.3)	(29.8)	(7.1)	(47.7)	(224.9)	(2.2)	(227.1)
Net finance expenses from insurance contracts	81.8	5.0	1.2	14.5	102.5	(0.1)	102.4
Net finance income from reinsurance contracts held	(94.8)	(0.4)	—	(6.3)	(101.5)	—	(101.5)
Net investment return and net insurance finance result	(153.3)	(25.2)	(5.9)	(39.5)	(223.9)	(2.3)	(226.2)
Other operating income	(6.4)	0.5	11.4	2.8	8.3	—	8.3
Other operating expenses	(21.9)	(2.5)	(8.5)	1.1	(31.8)	(0.7)	(32.5)
(Loss)/earnings before restructuring and one-off costs	(252.3)	(30.7)	52.7	7.8	(222.5)	(13.6)	(236.1)
Restructuring and one-off costs[3]							(45.3)
Other finance costs							(20.4)
Loss before tax							(301.8)

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2022[4] (restated[1] and unaudited).

	Motor	Home	RoPL[2,3]	Commercial	**Total Group - ongoing operations[2]**	Run-off partnerships[2]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Goodwill	130.4	45.8	28.7	10.1	215.0	—	215.0
Assets held for sale	25.8	5.1	1.5	7.8	40.2	0.7	40.9
Other segment assets	3,964.3	768.0	255.9	1,139.6	6,127.8	83.5	6,211.3
Reinsurance contract assets	950.9	11.4	—	87.6	1,049.9	(0.2)	1,049.7
Reinsurance contract liabilities	(0.6)	—	—	—	(0.6)	—	(0.6)
Insurance contract liabilities	(2,951.5)	(587.6)	(177.9)	(891.8)	(4,608.8)	(67.2)	(4,676.0)
Other segment liabilities	(409.5)	(81.4)	(24.6)	(123.8)	(639.3)	(9.2)	(648.5)
Segment net assets	1,709.8	161.3	83.6	229.5	2,184.2	7.6	2,191.8

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
3. See glossary on page 61 for definitions.
4. This segmental analysis 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. Insurance service result

	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Insurance revenue			
Gross written premium and associated fees	**1,687.5**	1,523.1	3,098.4
Instalment income	**45.1**	47.2	92.7
Movement in liability for remaining coverage	**(129.5)**	39.7	38.0
Insurance revenue	**1,603.1**	1,610.0	3,229.1
Insurance service expenses			
Incurred claims and other claims expenses	**(1,218.5)**	(1,146.3)	(2,435.3)
Past service – incurred claims	**54.6**	172.4	118.0
Other directly attributable expenses	**(465.9)**	(445.7)	(871.0)
Other directly attributable claims income	**21.0**	24.7	42.8
Total insurance service expenses	**(1,608.8)**	(1,394.9)	(3,145.5)
Expenses from reinsurance contracts held			
Reinsurance premium paid	**(67.4)**	(51.4)	(141.6)
Movement in asset for remaining coverage	**(11.3)**	(37.6)	(24.1)
Total expenses from reinsurance contracts held	**(78.7)**	(89.0)	(165.7)
Insurance claims recoverable from reinsurance contracts held			
Claims recovered	**60.3**	55.3	92.2
Past service – claim recoveries	**(73.6)**	(9.7)	12.6
Other directly attributable expenses	**(10.2)**	—	—
Effect of non-performance risk of reinsurers	**(1.5)**	(6.7)	(8.4)
Total insurance claims (payable to)/recoverable from reinsurance contracts held	**(25.0)**	38.9	96.4
Total insurance service result	**(109.4)**	165.0	14.3

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

6. Investment return and net insurance financial result

	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Interest income calculated using effective interest rate method:			
Debt securities	**37.3**	42.7	78.7
Cash and cash equivalents	**25.8**	2.0	13.9
Infrastructure debt	**7.0**	2.8	7.9
Commercial real estate loans	**6.4**	3.6	8.8
Total interest income calculated using effective interest rate method	**76.5**	51.1	109.3
Rental income from investment property	**8.0**	7.8	15.6
Other interest and similar income	**8.0**	7.8	15.6
Investment income	**84.5**	58.9	124.9
Investment fees	**(4.9)**	(4.7)	(9.5)
Net investment income	**79.6**	54.2	115.4
Net fair value losses on financial assets held at fair value through profit or loss:			
Debt securities	**(5.9)**	(319.4)	(370.7)
Hedging	**(3.3)**	76.4	69.5
Equity investments	**—**	(1.1)	(1.6)
Total net fair value losses on financial assets held at fair value through profit or loss:	**(9.2)**	(244.1)	(302.8)
Net fair value gains/(losses) on investment property	**3.4**	19.3	(39.1)
Net fair value (losses)/gains on equity investments measured at fair value through other comprehensive income	**(0.4)**	0.4	(0.6)
Net credit impairment gains/(losses) on financial investments	**0.3**	0.1	(0.6)
Net investment return	**73.7**	(170.1)	(227.7)
Represented by:			
Amounts recognised in profit or loss	**74.1**	(170.5)	(227.1)
Amounts recognised in OCI	**(0.4)**	0.4	(0.6)
Insurance finance expense from insurance contracts issued:			
Interest accreted to insurance contracts using current financial assumptions	**22.8**	67.5	102.4
Reinsurance finance income from insurance contracts held:			
Interest accreted to reinsurance contracts using current financial assumptions	**(39.4)**	(47.2)	(101.5)
Insurance and reinsurance finance (expenses)/income[2]	**(16.6)**	20.3	0.9
Total net investment return, insurance and reinsurance finance income/(expenses)	**57.1**	(149.8)	(226.8)
Represented by:			
Amounts recognised in income statement	**57.5**	(150.2)	(226.2)
Amounts recognised in OCI	**(0.4)**	0.4	(0.6)

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Insurance and reinsurance finance (expenses)/income are represented by amounts recognised in the income statement only.

6. Investment return and net insurance financial result continued

The table below analyses the gains and losses on hedging instruments included in investment return.

	6 months 2023 **£m** **unaudited**	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
(Losses)/gains on hedging instruments:			
Foreign exchange forward contracts[2]	**43.5**	(162.4)	(184.1)
Associated foreign exchange risk	**(49.3)**	165.6	184.7
Net (losses)/gains on foreign exchange contracts	**(5.8)**	3.2	0.6
Interest rate swaps:			
Gains on interest rate swaps[2]	**2.5**	73.2	68.9
Total (losses)/gains on hedging instruments	**(3.3)**	76.4	69.5

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. All foreign exchange forward contracts and interest rate swaps are measured at fair value through the income statement.

The Group holds fixed rate USD and EUR denominated bonds whose fair value is exposed to movements in interest rates. In order to economically hedge the interest rate risk of these bonds the Group enters into interest rate swaps paying a fixed rate and receiving a floating rate.

7. Other operating expenses

	6 months 2023 **£m** **unaudited**	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
IT and other operating expenses	**16.3**	13.5	42.2
Staff expenses	**5.9**	2.9	10.5
Depreciation, amortisation and impairment of intangible and fixed assets	**0.1**	—	25.1
Total other operating expenses	**22.3**	16.4	77.8

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

8. Other finance costs

	6 months 2023 **£m** **unaudited**	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Interest expense on subordinated liabilities	**5.2**	12.5	17.8
Net interest received on interest rate swap[2]	**—**	(2.2)	(2.2)
Unrealised losses on interest rate swap[2]	**—**	2.4	2.4
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**0.1**	(0.9)	(0.8)
Interest expense on lease liabilities	**1.7**	1.6	3.1
Other interest expense	**0.2**	—	0.1
Total	**7.2**	13.4	20.4

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. 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.

9. Tax credit

	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Current taxation:			
Charge/(credit) for the period	—	34.1	(9.9)
Over-provision in respect of prior period	—	—	(2.9)
Total	—	34.1	(12.8)
Deferred taxation:			
Credit for the period	**(24.4)**	(49.9)	(61.0)
Under-provision in respect of prior period	—	—	3.9
Total	**(24.4)**	(49.9)	(57.1)
Tax credit for the period	**(24.4)**	(15.8)	(69.9)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

10. Dividends and appropriations

	6 months 2023 £m unaudited	6 months 2022 £m unaudited	Full year 2022 £m unaudited
Amounts recognised as distributions to equity holders in the period:			
2022 interim dividend of 7.6 pence per share paid on 9 September 2022	—	—	99.0
2021 final dividend of 15.1 pence per share paid on 17 May 2022	—	198.9	198.9
	—	198.9	297.9
Coupon payments in respect of Tier 1 notes[1]	**8.3**	8.3	16.6
	8.3	207.2	314.5
Proposed dividends:			
2022 interim dividend of 7.6 pence per share	—	99.0	—

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 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 for the periods ended 30 June 2022 and 31 December 2022 by £1.3 million and £2.0 million, respectively. No dividends were paid for the period ended 30 June 2023.

11. Loss 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.

11. Loss per share: continued

	6 months 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
(Losses)/profit attributable to the owners of the Company	**(51.9)**	4.7	(231.9)
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Loss for the calculation of earnings per share	**(60.2)**	(3.6)	(248.5)
Weighted average number of Ordinary Shares in issue for the purpose of basic earnings per share (millions)	**1,299.5**	1,310.5	1,304.3
Effect of dilutive potential of share options and contingently issuable shares (millions)	**16.1**	20.3	15.0
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,315.6**	1,330.8	1,319.3
Basic loss per share (pence)	**(4.6)**	(0.3)	(19.1)
Diluted loss per share (pence)	**(4.6)**	(0.3)	(18.8)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

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 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.

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.

12. 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 2023 £m unaudited	31 Dec 2022 £m restated[1] and unaudited
Net assets	**1,785.1**	1,845.3
Goodwill and other intangible assets[2]	**(839.3)**	(822.2)
Tangible net assets	**945.8**	1,023.1
Number of Ordinary Shares (millions)	**1,311.4**	1,311.4
Shares held by employee trusts (millions)	**(12.8)**	(13.2)
Closing number of Ordinary Shares (millions)	**1,298.6**	1,298.2
Net asset value per share (pence)	**137.5**	142.1
Tangible net asset value per share (pence)	**72.8**	78.8

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. 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 2023 £m unaudited	6 months 2022 £m restated[1] and unaudited	Full year 2022 £m restated[1] and unaudited
Losses attributable to the owners of the Company	**(51.9)**	4.7	(231.9)
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)	(16.6)
Loss for the calculation of return on equity	**(60.2)**	(3.6)	(248.5)
Annualised loss for the calculation of return on equity	**(120.4)**	(7.2)	(248.5)
Opening shareholders' equity	**1,845.3**	2,450.6	2,450.6
Closing shareholders' equity	**1,785.1**	2,203.4	1,845.3
Average shareholders' equity	**1,815.2**	2,327.0	2,148.0
Return on equity	**(3.3%)**	(0.2%)	(11.6%)
Return on equity annualised	**(6.6%)**	(0.3%)	(11.6%)

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Losses have been annualised using the profit for the periods ended 30 June 2023 and 30 June 2022.

13. Share capital

Issued and fully paid: equity shares	30 Jun 2023			31 Dec 2022		
	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	**1,311.4**	**143.1**	**6.9**	1,330.7	145.2	4.8
Shares cancelled following buyback[2,3]	—	—	—	(19.3)	(2.1)	2.1
At 30 June 2023 (unaudited)/At 31 December 2022	**1,311.4**	**143.1**	**6.9**	1,311.4	143.1	6.9

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. 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.

14. Insurance contract assets and liabilities - gross and reinsurance

14.1 Insurance contract liabilities - Group

	Liability for remaining coverage		Liability for incurred claims		
	Excluding loss component	Loss component	Estimate of present value cash flows	Risk adjustment	**Total**
2023	£m	£m	£m	£m	**£m**
Insurance contract liabilities as at 1 January 2023	1,058.2	—	3,398.9	218.9	**4,676.0**
Insurance revenue	(1,603.1)				**(1,603.1)**
Insurance service expense:					
Incurred claims and other claims expenses		—	1,181.0	37.5	**1,218.5**
Losses and reversal of losses from onerous contracts		—			**—**
Past service – incurred claims			11.1	(65.7)	**(54.6)**
Insurance service result - gross	(1,603.1)	—	1,192.1	(28.2)	**(439.2)**
Insurance finance expenses		—	(22.8)		**(22.8)**
Total amounts recognised in comprehensive income	(1,603.1)	—	1,169.3	(28.2)	**(462.0)**
Cash flows:					
Premium received	1,782.4				**1,782.4**
Claims and other expenses paid			(1,326.7)		**(1,326.7)**
Total cash flows	1,782.4		(1,326.7)		**455.7**
Insurance contract liabilities as at 30 June 2023 (unaudited)	1,237.5	—	3,241.5	190.7	**4,669.7**

	Liability for remaining coverage		Liability for incurred claims		
	Excluding loss component	Loss component	Estimate of present value cash flows	Risk adjustment	**Total**
2022	£m	£m	£m	£m	**£m**
Insurance contract liabilities as at 1 January 2022 (restated[1] and unaudited)	1,123.2	—	3,474.9	221.3	**4,819.4**
Insurance revenue	(3,229.1)				**(3,229.1)**
Insurance service expense:					
Incurred claims and other claims expenses		—	2,369.9	65.4	**2,435.3**
Losses and reversal of losses from onerous contracts		—			**—**
Past service – incurred claims			(50.2)	(67.8)	**(118.0)**
Insurance service result - gross	(3,229.1)	—	2,319.7	(2.4)	**(911.8)**
Insurance finance expenses		—	(102.4)		**(102.4)**
Total amounts recognised in comprehensive income	(3,229.1)	—	2,217.3	(2.4)	**(1,014.2)**
Cash flows:					
Premium received	3,164.1				**3,164.1**
Claims and other expenses paid			(2,293.3)		**(2,293.3)**
Total cash flows	3,164.1		(2,293.3)		**870.8**
Insurance contract liabilities as at 31 December 2022 (restated[1] and unaudited)	1,058.2	—	3,398.9	218.9	**4,676.0**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

14. Insurance contract assets and liabilities - gross and reinsurance continued

14.2 Reinsurance contract assets

2023	Asset for remaining coverage		Amounts recovered on incurred claims		
	Excluding loss recovery component	Loss recovery component	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total
	£m	£m	£m	£m	**£m**
Reinsurance contract assets as at 1 January 2023 (restated[1] and unaudited)	—	—	954.3	95.4	**1,049.7**
Reinsurance contract liabilities as at 1 January 2023	(0.6)	—	—	—	**(0.6)**
Net reinsurance contract assets as at 1 January 2023	(0.6)	—	954.3	95.4	**1,049.1**
Reinsurance expenses	(78.7)				**(78.7)**
Other incurred and attributable expenses			(10.2)		**(10.2)**
Claims recovered		—	50.0	10.3	**60.3**
Past service – incurred claims			(43.4)	(30.2)	**(73.6)**
Effect of non-performance risk of reinsurers			(1.5)		**(1.5)**
Loss recovery from onerous underlying contracts		—			**—**
Net expenses from reinsurance contracts	(78.7)	—	(5.1)	(19.9)	**(103.7)**
Reinsurance finance income		—	(39.4)		**(39.4)**
Total amounts recognised in comprehensive income	(78.7)	—	(44.5)	(19.9)	**(143.1)**
Cash flows:					
Premium paid	103.3				**103.3**
Claims and other expenses recovered			(62.7)		**(62.7)**
Total cash flows	103.3		(62.7)		**40.6**
Reinsurance contract assets as at 30 June 2023 (unaudited)	24.0	—	847.1	75.5	**946.6**

2022	Asset for remaining coverage		Amounts recovered on incurred claims		
	Excluding loss recovery component	Loss recovery component	Estimate of present value cash flows	Risk adjustment for non-financial risk	Total
	£m	£m	£m	£m	**£m**
Reinsurance contract assets as at 1 January 2022 (restated[1] and unaudited)	34.6	—	1,039.6	99.8	**1,174.0**
Reinsurance expenses	(165.7)				**(165.7)**
Other incurred and attributable expenses			—		**—**
Claims recovered		—	75.6	16.6	**92.2**
Past service – incurred claims			33.6	(21.0)	**12.6**
Effect of non-performance risk of reinsurers			(8.4)		**(8.4)**
Loss recovery from onerous underlying contracts		—			**—**
Net expenses from reinsurance contracts	(165.7)	—	100.8	(4.4)	**(69.3)**
Reinsurance finance income		—	(101.5)		**(101.5)**
Total amounts recognised in comprehensive income	(165.7)	—	(0.7)	(4.4)	**(170.8)**
Cash flows:					
Premium paid	130.5				**130.5**
Claims and other expenses recovered			(84.6)		**(84.6)**
Total cash flows	130.5		(84.6)		**45.9**
Reinsurance contract assets as at 31 December 2022 (restated[1] and unaudited)	—	—	954.3	95.4	**1,049.7**
Reinsurance contract liabilities as at 31 December 2022	(0.6)	—	—	—	**(0.6)**
Net reinsurance contract assets as at 31 December 2022 (restated[1] and unaudited)	**(0.6)**	**—**	**954.3**	**95.4**	**1,049.1**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

14. Insurance contract assets and liabilities - gross and reinsurance continued

14.3 Insurance and reinsurance contract assets and liabilities by Segment

	Motor £m	Home £m	Rescue and other personal lines[1] £m	Commercial £m	**Total Group - ongoing operations[1] £m**	Run-off partnerships[1] £m	**Total Group £m**
2023 (unaudited)							
Insurance contract liabilities	(2,942.1)	(568.8)	(141.8)	(923.6)	**(4,576.3)**	(93.4)	**(4,669.7)**
Reinsurance contract assets	855.9	6.9	(0.5)	83.2	**945.5**	1.1	**946.6**
2022 (restated[2] and unaudited)							
Insurance contract liabilities	(2,951.5)	(587.6)	(177.9)	(891.8)	**(4,608.8)**	(67.2)	**(4,676.0)**
Reinsurance contract assets	950.9	11.4	—	87.6	**1,049.9**	(0.2)	**1,049.7**
Reinsurance contract liabilities	(0.6)	—	—	—	**(0.6)**	—	**(0.6)**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

15. Financial investments

	30 Jun 2023 £m unaudited	31 Dec 2022 £m restated[1] and unaudited
Debt securities measured at fair value through the profit and loss		
Corporate	**2,454.0**	2,605.1
Supranational	**25.0**	25.2
Local government	**6.0**	5.9
Sovereign	**77.3**	511.3
Total	**2,562.3**	3,147.5
Debt securities measured at amortised cost		
Corporate	**97.2**	97.2
Total	**97.2**	97.2
Total debt securities		
Fixed interest rate[2]	**2,645.9**	3,231.1
Floating interest rate	**13.6**	13.6
Total	**2,659.5**	3,244.7
Loans and receivables measured at amortised cost		
Infrastructure debt	**221.4**	236.8
Commercial real estate loans	**175.7**	198.9
Other loans	**1.6**	1.6
Total loans and receivables	**398.7**	437.3
Unquoted equity investments measured at fair value through other comprehensive income[3]	**14.7**	13.3
Unquoted equity investments measured at fair value through the profit and loss	**0.8**	0.8
Quoted equity investments measured at fair value through the profit and loss	**0.3**	0.3
Total	**3,074.0**	3,696.4

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. 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 2023 was £352.1 million (31 December 2022: £401.8 million).
3. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

15. Financial investments continued

Amounts arising from expected credit loss: financial investments measured at amortised cost

The following table sets out information about the credit quality of the financial investments measured at amortised cost. These assets are segmented into three stages of credit impairment:

Stage 1 - no significant increase in credit risk since inception;

Stage 2 - significant increase in credit risk since inception;

Stage 3 - asset is impaired.

For assets in stage 1, the allowance is calculated as the expected credit losses from events within 12 months after the reporting date. For assets in stage 2 and 3, the allowance is calculated as the expected credit loss from events in the remaining lifetime of each asset.

	Gross carrying amount	**ECL allowance**	**Carrying amount**	Carrying amount	Carrying amount
	30 Jun 2023	**30 Jun 2023**	**30 Jun 2023**	30 Jun 2022	1 Jan 2022
	£m	**£m**	**£m**	£m	£m
Stage 1	472.5	(1.5)	471.0	513.8	514.3
Stage 2	19.0	(1.1)	17.9	15.7	15.6
Stage 3	28.9	(21.9)	7.0	8.8	8.8
Total	**520.4**	**(24.5)**	**495.9**	**538.3**	**538.7**

The following table shows the impact of a three-notch downgrade on the Group's expected credit loss provision for loans and receivables measured at amortised cost. This reflects an immediate downgrade on the issuers current credit ratings. The key driver of such a scenario could be a change in the economic outlook which could impact the portfolio as a whole, or a response to an unexpected negative event, for a specific company or industry.

	ECL	**3 notch immediate downgrade**	ECL	3 notch immediate downgrade	ECL	3 notch immediate downgrade
	30 Jun 2023	**30 Jun 2023**	30 Jun 2022	30 Jun 2022	31 Dec 2022	31 Dec 2022
	£m	**£m**	£m	£m	£m	£m
Infrastructure debt	(1.2)	(4.2)	(2.1)	(8.5)	(1.4)	(5.0)
Commercial real estate loans	(0.2)	(3.0)	(0.2)	(3.9)	(0.2)	(3.9)
HTM debt securities	(0.9)	(3.3)	(1.1)	(3.7)	(1.0)	(3.6)
Other loans	(0.3)	(0.3)	(0.5)	(0.6)	(0.3)	(0.3)
Total	**(2.6)**	**(10.8)**	**(3.9)**	**(16.7)**	**(2.9)**	**(12.8)**

16. Cash and cash equivalents and borrowings

	30 Jun 2023	31 Dec 2022
	£m	£m
	unaudited	restated[1] and unaudited
Cash at bank and in hand	**165.2**	124.8
Short term deposits with credit institutions[2]	**1,435.7**	878.8
Cash and cash equivalents	**1,600.9**	1,003.6
Bank overdrafts[3]	**(95.8)**	(65.2)
Cash and bank overdrafts[4]	**1,505.1**	938.4

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. This represents money market funds.
3. 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.
4. 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 2023 was 4.00% (2022: 1.46%) and average maturity was 10 days (2022: 10 days).

17. 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.

17. Fair value continued

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 debt securities held at FVTPL 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 2 also includes quoted equity investments that the Group holds for which prices are available however, the market transactions upon which those prices are based are not considered to be regularly occurring.
- 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. HTM debt securities are private placed securities which do not trade on active markets, these are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium. Infrastructure debt and commercial real estate are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents. Unlisted equity investments are comprised of investments in private equity funds, which are valued at the proportion of the Group's holding of the net asset value reported by the investment vehicle. These are based on several unobservable inputs including market multiples and cash flow forecasts.

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

At 30 June 2023 (unaudited)	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value through profit or loss:					
Investment property	**281.9**	—	—	281.9	**281.9**
Derivative assets	**36.8**	—	36.8	—	**36.8**
Debt securities	**2,562.3**	77.3	2,485.0	—	**2,562.3**
Equity investments	**1.1**	—	0.3	0.8	**1.1**
Assets held at fair value through other comprehensive income:					
Equity investments	**14.7**	—	—	14.7	**14.7**
Assets held at amortised cost:					
Debt securities	**97.2**	—	28.3	59.4	**87.7**
Infrastructure debt	**221.4**	—	—	220.1	**220.1**
Commercial real estate loans	**175.7**	—	—	173.8	**173.8**
Other loans	**1.6**	**—**	**—**	**1.6**	**1.6**
Total	**3,392.7**	**77.3**	**2,550.4**	**752.3**	**3,380.0**
Liabilities held at fair value through profit or loss:					
Derivative liabilities	**6.2**	—	6.2	—	**6.2**
Other financial liabilities:					
Subordinated liabilities	**258.7**	—	189.2	—	**189.2**
Total	**264.9**	**—**	**195.4**	**—**	**195.4**

17. Fair value continued

At 31 December 2022 (restated[1] and unaudited)	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value through profit or loss:					
Investment property	**278.5**	—	—	278.5	**278.5**
Derivative assets	**31.3**	—	31.3	—	**31.3**
Debt securities	**3,147.5**	511.3	2,636.2	—	**3,147.5**
Equity investments	**1.1**	—	0.3	0.8	**1.1**
Assets held at fair value through other comprehensive income:					
Equity investments	**13.3**	—	—	13.3	**13.3**
Assets held at amortised cost:					
Debt securities	**97.2**	—	28.6	61.0	**89.6**
Infrastructure debt	**236.8**	—	—	235.7	**235.7**
Commercial real estate loans	**198.9**	—	—	198.1	**198.1**
Other loans	**1.6**	**—**	**—**	**1.9**	**1.9**
Total	**4,006.2**	**511.3**	**2,696.4**	**789.3**	**3,997.0**
Liabilities held at fair value through profit or loss:					
Derivative liabilities	**29.6**	—	29.6	—	**29.6**
Other financial liabilities:					
Subordinated liabilities	**258.6**	—	204.9	—	**204.9**
Total	**288.2**	**—**	**234.5**	**—**	**234.5**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

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:

– 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.

There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2022.

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

At 30 June 2023 (unaudited)	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	281.9[1]	Income capitalisation	Equivalent yield	4.22% - 7.40% (Average - 5.69%)
			Estimated rental value per square foot	£4.85 - £26.00 (Average - £13.31)

Note:

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

The following table provides a sensitivity analysis for +/- 5 basis points and +/- 50 basis points movement in tenants' rental income and impact on property valuation in sterling.

		-50bp	-5bp	Baseline as at 30 June 2023 (unaudited)	+5bp	+50bp
Equivalent yield	%	5.035	5.530	5.585	5.640	6.134
Value	£m	256.9	279.1	281.9	284.6	312.2

17. Fair value continued

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

	Investment property £m	Unquoted equity investments £m
At 1 January 2023 (restated[1] and unaudited)	**278.5**	**13.3**
Additions[2]	—	1.8
Increase in fair value in the period	3.4	0.2
Disposals	—	(0.6)
At 30 June 2023 (unaudited)	**281.9**	**14.7**

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Additions to unquoted equity investments are initially recognised at fair value plus directly related transaction costs.

18. Acquisitions

On 24 April 2023 the Group acquired 100% of the share capital of By Miles Group Limited (**"By Miles"**) for a nominal consideration. Details of the business combination are as follows:

	21 April 2023 £m
Amount settled in cash	—
Recognised amounts of identifiable net assets:	
Intangible assets	0.6
Property, plant and equipment	1.9
Cash and cash equivalents	1.1
Trade and other receivables	0.5
Trade and other payables	(1.6)
Borrowings	(5.1)
Net identifiable assets and liabilities	**(2.6)**
Goodwill	**2.6**

By Miles is a Managing General Agent and provider of real-time pay-by-mile insurance policies and will allow the Group to meet more of the needs of more customers.

The amount settled in cash was £1. Acquisition-related expenses of £0.4 million have been recognised in the consolidated statement of comprehensive income.

At 24 April 2023, the fair values of the net identifiable assets and liabilities was not considered to be materially different from that of their carrying values.

Goodwill recognised on the acquisition relates to expected growth, synergies and the value of the By Miles proposition which cannot be separately recognised as an intangible asset. The goodwill has been allocated to the Motor segment.

19. 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 2023 (2022: £nil).

Full details of the Group's related party transactions for the year ended 31 December 2022 are included on page 241 of the Annual Report & Accounts 2022.

20. Post balance sheet events

The freehold Bromley property recognised within assets held for sale as at 30 June 2023 was sold on 28 July 2023 for a consideration of £20.5 million.

On 1 September 2023, the Group's partnership with Motability Operations went live. The partnership is intended to serve the motor insurance needs of almost 700,000 of Motability Operations' customers.

The Group announced on 6 September 2023 the proposed sale its Commercial Brokered business (Disposal Group), which forms part of the Commercial segment for an initial consideration of £520 million and an earn out of up to £30 million. As part of the transaction, on 1 October 2023 the group will enter into a risk transfer agreement, whereby the group transfers all economic risks and rewards of the Disposal Group from that date. The transaction is subject to shareholder approval and would increase the Group's solvency capital ratio by approximately 45 percentage points.

21.1 First-time adoption of new accounting standards

The Company assessed its business model for managing the financial assets held by the Company and classified its financial assets into the appropriate IFRS 9 categories. The impact of the reclassification was as follows:

Financial asset	Measurement category		**IAS 39**	Remeasurement		**IFRS 9**
	IAS 39	IFRS 9		ECL	Other	
			1 January 2022			**1 January 2022 restated[1]**
			£m	£m	£m	**£m**
Debt securities measured at FVTPL	Available-for-sale ("AFS")	Fair value through profit or loss ("FVTPL")	**4,084.6**	—	—	**4,084.6**
Debt securities measured at amortised cost	Held-to-maturity ("HTM")	Amortised cost	**91.2**	(1.2)	—	**90.0**
Equity Investments	Fair value through OCI	Fair value through OCI	**6.2**	—	—	**6.2**
Equity Investments	Fair value through profit or loss	Fair value through profit or loss	**0.8**	—	—	**0.8**
Infrastructure debt	Amortised cost	Amortised cost	**250.8**	(1.8)	—	**249.0**
Commercial real estate loans	Amortised cost	Amortised cost	**200.8**	(0.6)	—	**200.2**
Other loans[2]	Amortised cost	Amortised cost	**—**	(0.5)	—	**(0.5)**
Cash and cash equivalents	Amortised cost	Amortised cost	**955.7**	—	—	**955.7**
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	**35.9**	—	—	**35.9**

Note:
1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Relates to a loan contract agreed with the nature recovery charity, Heal, where the first draw down of the facility was not made until August 2022.

21.2 First-time adoption of new accounting standards

Impact on the consolidated statement of comprehensive income for the period ended 30 June 2022.

	30 June 2022	First-time adoption of IFRS 9	First-time adoption of IFRS 17	**30 June 2022**
	£m	£m	£m	**£m**
				restated[1] and unaudited
Profit for the period attributable to the owners of the Company	**145.7**	(178.7)	37.7	**4.7**
Other comprehensive (loss)/income for the period for the period net of tax	**(177.9)**	178.9	—	**1.0**
Total comprehensive (loss)/income for the period for the period attributable to the owners of the Company	**(32.2)**	0.2	37.7	**5.7**

Note:
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

21.3 First-time adoption of new accounting standards

Impact on the consolidated balance sheet as at 1 January 2022.

	1 January 2022 £m	First-time adoption of IFRS 9 £m	First-time adoption of IFRS 17 £m	1 January 2022 £m restated[1]
Assets				
Goodwill and other intangible assets	**822.5**	—	—	**822.5**
Property, plant and equipment	**113.8**	—	—	**113.8**
Right-of-use assets	**76.1**	—	—	**76.1**
Investment property	**317.0**	—	—	**317.0**
Reinsurance contract assets	**1,211.8**	—	(37.9)	**1,173.9**
Deferred acquisition costs	**186.6**	—	(186.6)	**—**
Deferred tax assets	**—**	0.2	29.2	**29.4**
Current tax assets	**14.4**	—	—	**14.4**
Other receivables	**762.8**	—	(586.1)	**176.7**
Prepayments, accrued income and other assets	**125.1**	(0.9)	—	**124.2**
Derivative financial instruments	**35.9**	—	—	**35.9**
Retirement benefit asset	**12.1**	—	—	**12.1**
Financial investments	**4,633.6**	(3.3)	—	**4,630.3**
Cash and cash equivalents	**955.7**	—	—	**955.7**
Assets held for sale	**41.2**	—	—	**41.2**
Total assets	**9,308.6**	**(4.0)**	**(781.4)**	**8,523.2**
Shareholders' equity				
Shareholders' equity	**2,550.2**	(3.5)	(96.1)	**2,450.6**
Tier 1 notes	**346.5**	—	—	**346.5**
Total equity	**2,896.7**	**(3.5)**	**(96.1)**	**2,797.1**
Liabilities				
Subordinated liabilities	**513.6**		—	**513.6**
Insurance contract liabilities	**3,680.5**	—	1,138.8	**4,819.3**
Unearned premium reserve	**1,500.7**	—	(1,500.7)	**—**
Borrowings	**59.2**	—	—	**59.2**
Derivative financial instruments	**19.5**	—	—	**19.5**
Provisions	**96.4**	—	—	**96.4**
Trade and other payables	**457.3**	—	(323.4)	**133.9**
Lease liabilities	**84.2**	—	—	**84.2**
Deferred tax liabilities	**0.5**	(0.5)	—	**—**
Total liabilities	**6,411.9**	**(0.5)**	**(685.3)**	**5,726.1**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

The quantitative impact on the balance sheet of the first-time adoption of IFRS 9 and 17 on the transition date is explained in note 2.3 of these financial statements.

21.4 First-time adoption of new accounting standards

Impact on the consolidated cash flow statement for the period ended 30 June 2022.

	30 June 2022 £m	First-time adoption of IFRS 9 £m	First-time adoption of IFRS 17 £m	30 June 2022 £m restated[1] and unaudite4d
Net cash generated from operating activities	**359.4**	—	—	**359.4**
Net cash used in investing activities	**(42.3)**	—	—	**(42.3)**
Net cash used in financing activities	**(532.3)**	—	—	**(532.3)**
Net (decrease)/increase in cash and cash equivalents	**(215.2)**	—	—	**(215.2)**
Cash and cash equivalents at the beginning of the year	**896.5**	—	—	**896.5**
Cash and cash equivalents at the end of the period	**681.3**	—	—	**681.3**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.

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.
Acquisition costs	Costs that arise from activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs.
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.
ASHE index	The Annual Survey of Hours and Earnings ("ASHE") provides information about the levels, distribution and make-up of earnings and paid hours worked for employees in all industries and occupations. The ASHE tables contain estimates of earnings for employees by sex and full-time or part-time status.
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.
Claims frequency	The number of claims divided by the number of policies per year.
Combined operating ratio	The sum of the net insurance claims, net acquisition and net expense ratios. The ratio measures the amount of claims costs, acquisition and operating expenses, compared to net insurance revenue. A ratio of less than 100% indicates profitable underwriting. The ratio and the comparative are calculated on an IFRS 17 basis and is not comparable to combined operating ratios that were calculated on an IFRS 4 basis published previously. (See page 64 - 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 page 64 - Alternative Performance Measures.)
Effect of change in yield curve	Reflects the effect of changes in discounting, due to movements in the PRA risk-free yield curve and ASHE index, on claims previously recognised.
Fair value through profit or loss ("FVTPL")	A financial asset or liability where at each balance sheet date the asset or liability is remeasured to fair value and any movement in that fair value is taken directly to the income statement.
FV gains/(losses)	Includes fair value gains/(losses) on financial assets held at FVTPL, fair value gains/(losses) on investment property and net expected credit losses on financial investments. (See note 6 Investment return and net insurance financial result)
Financial leverage ratio	Tier 1 notes and financial debt (subordinated Tier 2 notes) as a percentage of total capital employed.
Gross written premium and associated fees	The total premiums from insurance contracts that were incepted during the period, including 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 fee income.
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.
Investment income yield	The income, net of fees, 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 page 64 - Alternative Performance Measures.)
Investment return	Total investment income recognised through the income statement, earned from the investment portfolio, including investment fees, 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 page 64 - Alternative Performance Measures.)
Insurance service result	The sum of the net insurance contract revenues, net insurance contract claims, acquisition costs and operating expenses, compared to the net insurance contract revenues generated.
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 acquisition ratio	The ratio of acquisition costs divided by net insurance contract revenue (See page 64 - Alternative Performance Measures.)

Term	Definition and explanation
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 expense ratio	The ratio of operating expenses divided by net insurance contract revenue (See page 64 - Alternative Performance Measures.)
Net insurance claims ratio	The ratio of net insurance contract claims divided by net insurance contract revenue (See page 64 - Alternative Performance Measures.)
Net insurance margin ("NIM")	The ratio of insurance service result divided by net insurance contract revenues. The **normalised net insurance margin** adjusts net insurance claims and acquisition costs for weather and changes to the Ogden discount rate, when relevant. (See page 64 - Alternative Performance Measures.)
Net insurance revenue	The total insurance contract revenue (consisting; premium written and associated fees, instalment income and movement in liability for remaining coverage) less expenses from reinsurance contracts held (consisting: reinsurance premium paid and movement in asset for remaining coverage).
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
Ongoing operations	The Group's ongoing operations include Motor, Home, Rescue and other personal lines and Commercial segments and excludes the run-off partnerships segment. Please also refer to **run-off partnerships**. The use of the term ongoing operations is not considered equivalent to continuing operations as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and run-off partnerships does not meet the criteria of a discontinued operation and has not been accounted for as such. (See page 65 - Alternative Performance Measures.)
Operating earnings/(loss) per share	The the earnings attributable to the owners of the company. The Group's profits, which include run-off Partnerships, other finance costs & tax after deduction of the Tier 1 coupon payment allocated to each Ordinary Share of the Company, but excludes restructuring and one-off costs divided by the weighted average of Ordinary Shares outstanding in the relevant financial year, excluding Ordinary Shares held by as employee trust shares, adjusted for the dilutive potential Ordinary Shares.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding FV gains/(losses), change in yield curve, other finance costs, restructuring and one-off costs. **Normalised operating profit** is operating profit adjusted for weather and any 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 page 65 - Alternative Performance Measures.)
Operating return on tangible equity ("RoTE")	This is adjusted operating profit from ongoing operations divided by the Group's average shareholders' equity less goodwill and other intangible assets. Operating profit after tax is adjusted to include other finance costs and the Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 23.5% (2022: 19%). (See page 65 - Alternative Performance Measures.)
Other finance costs	The cost of servicing the Group's external borrowings and including the interest on right-of-use assets.
Other operating expenses	These are the expenses relating to business activities excluding restructuring and one-off costs and those included within the insurance service result. (See page 9.)
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.
PRA risk-free yield curve	Schedules of risk-free interest rates in a number of currencies produced by the Bank of England. These rates are used to calculate the present value of the expected future costs of honouring insurance companies' obligations to policyholders.
Restructuring and one-off costs	Restructuring costs are costs incurred in respect of those business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.
Return on equity	This is calculated by dividing the (loss)/profit attributable to the owners of the Company after deduction of the Tier 1 coupon payments by average shareholders' equity for the period.
RoPL	Rescue and other personal lines.

Term	Definition and explanation
Run-off partnerships	The Group has exited, or has initiated termination of three partnerships which will reduce its exposure to low margin packaged bank accounts so it may redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, where the Group has indicated to the partner that it will not be seeking to renew. The term run-off partnerships does not meet the criteria of a discontinued operation as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and has not been accounted for as such.
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 page 65 - 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 page 65 - Alternative Performance Measures.)
Unwind of discounting of claims	Comprises insurance finance income and expenses arising from the release of the effect of discounting as projected cashflows move one period closer. The discount unwind is calculated every quarter on opening reserves.

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”, "vision", “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 may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group’s results of operations, financial condition, prospects, growth, net insurance margin, 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 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 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's PPR regulations and Consumer Duty regulations 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 war in Ukraine following the Russian invasion;
– 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.

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 on pages 60 to 62 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 4 on page 41 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated income statement. All note references in the table below are to the notes to the consolidated financial statements on pages 32 to 59.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Combined operating ratio	Profit before tax	Combined operating ratio is defined in the glossary on page 60 and reconciled in Appendix B on pages 68 to 73	Expresses commission expense, in relation to net earned premium.
Current-year attritional claims ratio	Net insurance claims	Current-year attritional claims ratio is defined in the glossary on page 60 and is reconciled to the net insurance claims ratio in Appendix B on page 70.	Expresses claims performance in the current accident year in relation to net earned premium.
Gross written premium and associated fees	Insurance revenue	Gross written premium and associate fees is defined in the glossary on page 60 and reconciled in note 5 on page 44.	The IFRS 17 profit or loss account disclosures reflect premium on an earned basis, compared to a written basis under IFRS 4. The Group will continue to provide detail on trading volumes on a written basis as an alternative performance measure.
Investment income yield	Investment income	Investment income yield is defined in the glossary on page 60 and is reconciled on page 66.	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 on page 60 and is reconciled on page 66.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Net acquisition ratio	Total expenses	Acquisition ratio is defined in the glossary on page 60 and reconciled in Appendix B on pages 68 to 73.	Expresses acquisition costs in relation to net insurance contract revenue.
Expense ratio	Total expenses	Expense ratio is defined in the glossary on page 60 and reconciled in Appendix B on page 70.	Expresses underwriting and policy expenses in relation to net earned premium. Note that restructuring and one-off costs are not considered as underwriting costs and are not included in expense ratio calculations.
Net insurance margin ("**NIM**")	Profit before tax	Net insurance margin is defined in the glossary on page 61 and reconciled in Appendix B on pages 68 to 73.	This is a measure of underwriting profitability and excludes non-insurance income. A ratio greater than 0% represents an underwriting profit and a ratio of less than 0% represents an underwriting loss.
Normalised net insurance margin	Profit before tax	Net insurance margin and normalised net insurance margin are defined in the glossary on page 60 and reconciled in Appendix B on pages 68 to 73.	This is a measure of underwriting profitability excluding the variances of actual weather from our assumptions, Ogden discount rate changes (when relevant), It also excludes non insurance income. A ratio greater than 0% represents an underwriting profit and a ratio of less than 0% represents an underwriting loss.
Ongoing operations (see also run-off partnerships)	Multiple - rationale for APM	Ongoing operations and run-off partnerships are on page 61 and reconciled in note 4 on page 41.	As noted in the Acting CEO and CFO reviews, the Group has exited or has initiated termination of three low margin partnerships in order to be able to deploy its capital where it may obtain higher returns and has excluded this business from its ongoing results to give the reader a clearer view of the Group's ongoing activities and activities that it is seeking to exit from.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Operating earnings/(loss) per share	Diluted earnings per share	Operating earnings/(loss) per share is defined in the glossary on page 61 and reconciled on page 67.	This is a measure of profitability. A three-year cumulative operating earnings per share (the sum of the amounts for the three years starting with the year that the award is made) is used in long-term incentive plan ("**LTIP**") calculations.
Operating profit	Profit before tax	Operating profit is defined in the glossary on page 61 and reconciled in Appendix B on pages 68 to 73.	This shows the underlying performance (before tax and excluding finance costs and restructuring and one-off costs) of the business activities.
Operating return on tangible equity	Return on equity	Operating return on tangible equity is defined in the glossary on page 61 and is reconciled on page 67.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Other operating expenses	Total expenses	Operating expenses are defined in the glossary on page 61 and reconciled in note 4 on page 41.	This shows the expenses relating to business activities excluding restructuring and one-off costs and those included within the insurance service result.
Tangible equity	Equity	Tangible equity is defined in the glossary on page 62 and is reconciled on page 67.	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 on page 62 and reconciled in note 12 on page 48.	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.

Investment income and return yields[1]

	Notes	H1 2023 £m unaudited	H1 2022 £m restated[2] and unaudited
Investment income	6	**84.5**	58.9
Investment fees	6	**(4.9)**	(4.7)
Realised and unrealised losses	6	**(5.5)**	(224.7)
Total investment return	6	**74.1**	(170.5)
Opening investment property		**278.5**	317.0
Opening financial investments		**3,696.4**	4,630.3
Opening cash and cash equivalents		**1,003.6**	955.7
Opening borrowings		**(65.2)**	(59.2)
Opening derivatives asset[4]		**1.6**	14.3
Opening investment holdings		**4,914.9**	5,858.1
Closing investment property		**281.9**	336.4
Closing financial investments	15	**3,074.0**	4,105.3
Closing cash and cash equivalents	16	**1,600.9**	777.2
Closing borrowings	16	**(95.8)**	(95.9)
Closing derivatives asset[4]		**31.3**	1.5
Closing investment holdings		**4,892.3**	5,124.5
Average investment holdings[5]		**4,903.6**	5,491.3
Investment income yield[1]		**3.2%**	2.0%
Investment return yield[1]		**3.0%**	(6.2)%

Notes:

1. See glossary on pages 60 and 61 for definitions.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
3. See footnote 2 on page 20 (Investment holdings table).
4. Mean average of opening and closing balances.

Operating return on tangible equity[1]

	30 Jun 2023 £m unaudited	30 Jun 2022 £m restated[2] and unaudited
Operating (loss)/profit - ongoing operations	**(78.3)**	197.0
Other finance costs	**(7.2)**	(13.4)
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)
Adjusted operating (loss)/profit - ongoing operations before tax	**(93.8)**	175.3
Tax credit/(charge) (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	**22.0**	(33.3)
Adjusted operating (loss)/profit - ongoing operations after tax	**(71.8)**	142.0
Annualised adjusted operating (loss)/profit - ongoing operations after tax	**(143.6)**	284.0
Opening shareholders' equity	**1,845.3**	2,450.6
Opening goodwill and other intangible assets	**(822.2)**	(822.5)
Opening shareholders' tangible equity	**1,023.1**	1,628.1
Closing shareholders' equity	**1,785.1**	2,203.5
Closing goodwill and other intangible assets	**(839.3)**	(832.4)
Closing shareholders' tangible equity	**945.8**	1,371.1
Average shareholders' tangible equity[3]	**984.5**	1,499.6
Operating return on tangible equity	**(7.3%)**	9.5%
Operating return on tangible equity annualised	**(14.6%)**	18.9%

Notes:

1. See glossary on page 61 for definition.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
3. Mean average of opening and closing balances.

Operating earnings/(loss) per share

	30 Jun 2023 £m unaudited	30 Jun 2022 £m unaudited
Loss for the period before tax	**(76.3)**	(11.1)
add back: Restructuring and one-off costs	**8.8**	4.0
Coupon payments in respect of Tier 1 notes	**(8.3)**	(8.3)
Adjusted loss for the period before tax	**(75.8)**	(15.4)
Tax credit (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	**17.8**	2.9
Adjusted loss for the period attributable to the owners of the Company	**(58.0)**	(12.5)
Weighted average total shares (Number of ordinary shares (millions))	**1,311.4**	1,323.1
Weighted average of Share Trust owned shares (millions)	**(11.9)**	(12.6)
Weighted average number of Ordinary Shares in issue (millions)	**1,299.5**	1,310.5
Effect of dilutive potential of share options and contingently issuable shares (millions)	**16.1**	20.3
Weighted average number of Ordinary Shares for the purpose of operating earnings per share (millions)	**1,315.6**	1,330.8
Operating loss per share	**(4.4)**	(0.9)

Notes:

1. See glossary on page 61 for definitions.

Insurance and reinsurance finance expenses[1]

	30 Jun 2023 £m unaudited	30 Jun 2022 £m unaudited	31 Dec 2022 £m unaudited
Insurance finance expense from insurance contracts issued:			
Unwind of discounting of claims	**(76.3)**	(24.2)	(87.2)
Of which:			
Ongoing operations in operating profit	**(75.8)**	(24.0)	(86.8)
Run-off partnerships	**(0.5)**	(0.2)	(0.4)
Effect of change in yield curve	**99.1**	91.7	189.6
Insurance finance expense from insurance contracts issued:	**22.8**	67.5	102.4
Reinsurance finance expense from insurance contracts issued:			
Unwind of discounting of claims	**20.1**	8.9	27.4
Of which:			
Ongoing operations in operating profit	**20.1**	8.9	27.4
Run-off partnerships	**—**	—	—
Effect of change in yield curve	**(59.5)**	(56.1)	(128.9)
Reinsurance finance expense from insurance contracts issued:	**(39.4)**	(47.2)	(101.5)
Insurance and reinsurance finance (expenses)/income	**(16.6)**	20.3	0.9

Notes:

1. See glossary on page 61 for definitions.

Management view income statement – period ended 30 June 2023

The table below analyses the Group's management view results by reportable segment for the period ended 30 June 2023 (unaudited).

	Notes	Motor £m	Home £m	RoPL[1,2] £m	Commercial £m	**Total Group - ongoing operations[1] £m**	Run-off partnerships[1] £m	**Total Group £m**
Gross written premium and associated fees	4	758.7	252.7	131.0	472.8	**1,615.2**	72.3	**1,687.5**
Instalment income		32.0	7.9	1.3	3.9	**45.1**	—	**45.1**
Movement in liability for remaining coverage		(46.1)	1.8	4.9	(88.7)	**(128.1)**	(1.4)	**(129.5)**
Insurance revenue	4	744.6	262.4	137.2	388.0	**1,532.2**	70.9	**1,603.1**
Expenses from reinsurance contracts held	4	(29.5)	(14.9)	(1.8)	(31.9)	**(78.1)**	(0.6)	**(78.7)**
Net insurance revenue		715.1	247.5	135.4	356.1	**1,454.1**	70.3	**1,524.4**
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(669.2)	(147.0)	(71.9)	(178.9)	**(1,067.0)**	(75.9)	**(1,142.9)**
Insurance claims (payable to)/recoverable from reinsurers	4	(33.2)	3.3	—	4.0	**(25.9)**	0.9	**(25.0)**
Net insurance claims		(702.4)	(143.7)	(71.9)	(174.9)	**(1,092.9)**	(75.0)	**(1,167.9)**
Of which:								
Prior-year reserves development		(59.8)	6.3	6.5	28.7	**(18.3)**	(7.9)	**(26.2)**
Acquisition costs		(32.5)	(17.4)	(18.0)	(88.4)	**(156.3)**	(0.1)	**(156.4)**
Operating expenses		(164.0)	(54.1)	(20.3)	(59.9)	**(298.3)**	(11.2)	**(309.5)**
Other directly attributable expenses	4	(196.5)	(71.5)	(38.3)	(148.3)	**(454.6)**	(11.3)	**(465.9)**
Insurance service result	4	(183.8)	32.3	25.2	32.9	**(93.4)**	(16.0)	**(109.4)**
Net investment income		48.2	9.3	2.6	18.8	**78.9**	0.7	**79.6**
Unwind of discounting of claims		(35.4)	(7.5)	(1.1)	(11.7)	**(55.7)**	(0.5)	**(56.2)**
Other operating income and expenses	4	(9.4)	(1.1)	1.0	1.4	**(8.1)**	(0.3)	**(8.4)**
Operating (loss)/profit		(180.4)	33.0	27.7	41.4	**(78.3)**	(16.1)	**(94.4)**
FV gains/(losses)[2]	6							**(5.5)**
Effect of change in yield curve								**39.6**
Restructuring and one-off costs[2]	4							**(8.8)**
Other finance costs	4, 10							**(7.2)**
Loss before tax								**(76.3)**

Key performance indicators – period ended 30 June 2023

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	**Total Group**
Net insurance margin (NIM)	**(25.6%)**	**13.0%**	**18.6%**	**9.3%**	**(6.4%)**	**(7.2%)**
Combined operating ratio	125.6%	87.0%	81.4%	90.7%	**106.4%**	**107.2%**
Net expense ratio	22.9%	21.9%	15.0%	16.8%	**20.5%**	**20.3%**
Net acquisition costs ratio	4.5%	7.0%	13.3%	24.8%	**10.7%**	**10.3%**
Net insurance claims ratio	98.2%	58.1%	53.1%	49.1%	**75.2%**	**76.6%**
– current-year attritional	89.8%	56.7%	57.9%	56.6%	**73.1%**	**74.1%**
– prior-year reserves development	8.4%	(2.5%)	(4.8%)	(8.1%)	**1.3%**	**1.7%**
– major weather events	N/A	3.9%	N/A	0.6%	**0.8%**	**0.8%**
Effect of weather						
Net insurance claims ratio	N/A	(7.0%)	N/A	(3.1%)	**(1.9%)**	**(1.9%)**
Net acquisition ratio	N/A	0.0%	N/A	0.0%	**0.0%**	**0.0%**
Net insurance margin normalised for weather	**N/A**	**6.0%**	**N/A**	**6.2%**	**(8.3%)**	**(9.1%)**

Additional data to support key performance indicators – period ended 30 June 2023

	Motor	Home	RoPL[1,2]	Commercial	Total Group - ongoing operations[1]	Total Group
	£m	£m	£m	£m	£m	£m
Net insurance claims	**(702.4)**	**(143.7)**	**(71.9)**	**(174.9)**	**(1,092.9)**	**(1,167.9)**
Attritional net insurance claims	(642.6)	(140.3)	(78.4)	(201.6)	**(1,062.9)**	**(1,130.0)**
Prior-year reserves development	(59.8)	6.3	6.5	28.7	**(18.3)**	**(26.2)**
Major weather events	N/A	(9.7)	N/A	(2.0)	**(11.7)**	**(11.7)**

Normalised operating profit[1] – period ended 30 June 2023

	Total Group - ongoing operations[1]
	£m
Operating loss	**(78.3)**
Effect of:	
Ogden discount rate	—
Normalised weather - claims	**(28.3)**
Normalised weather - profit share	—
Normalised operating loss	**(106.6)**
Prior-year adjustments	
Prior-year reserves development	**(18.3)**
Ogden discount rate	—
Prior-year normalised operating loss	**(18.3)**
Current-year normalised operating loss	**(124.9)**
Current-year normalised operating profit ratio	**117%**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
2. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.

Management view income statement – period ended 30 June 2022

The table below analyses the Group's management view results by reportable segment for the period ended 30 June 2022 (restated[1] and unaudited).

	Notes	Motor £m	Home £m	RoPL[2,3] £m	Commercial £m	Total Group - ongoing operations[2] £m	Run-off partnerships[2] £m	Total Group £m
Gross written premium and associated fees	4	706.8	250.4	135.5	377.8	1,470.5	52.6	1,523.1
Instalment income		33.2	8.9	1.4	3.7	47.2	—	47.2
Movement in liability for remaining coverage		51.4	29.9	6.7	(47.3)	40.7	(1.0)	39.7
Insurance revenue	4	791.4	289.2	143.6	334.2	1,558.4	51.6	1,610.0
Expenses from reinsurance contracts held	4	(45.0)	(12.7)	(1.2)	(29.8)	(88.7)	(0.3)	(89.0)
Net insurance revenue		746.4	276.5	142.4	304.4	1,469.7	51.3	1,521.0
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(544.2)	(150.8)	(75.2)	(139.7)	(909.9)	(39.3)	(949.2)
Insurance claims recoverable from/(payable to) reinsurers	4	39.2	0.2	(0.2)	(0.5)	38.7	0.2	38.9
Net insurance claims		(505.0)	(150.6)	(75.4)	(140.2)	(871.2)	(39.1)	(910.3)
Of which:								
Prior-year reserves development		59.0	21.2	4.7	39.7	124.6	16.5	141.1
Acquisition costs		(36.6)	(16.6)	(11.0)	(81.0)	(145.2)	(2.5)	(147.7)
Operating expenses		(151.6)	(53.4)	(27.2)	(54.6)	(286.8)	(11.2)	(298.0)
Other directly attributable expenses	4	(188.2)	(70.0)	(38.2)	(135.6)	(432.0)	(13.7)	(445.7)
Insurance service result	4	53.2	55.9	28.8	28.6	166.5	(1.5)	165.0
Net investment income		34.0	6.6	1.7	11.5	53.8	0.4	54.2
Unwind of discounting of claims		(10.0)	(1.7)	(0.5)	(2.9)	(15.1)	(0.2)	(15.3)
Other operating income and expenses		(10.5)	(0.9)	1.4	1.8	(8.2)	(0.3)	(8.5)
Operating profit/(loss)		66.7	59.9	31.4	39.0	197.0	(1.6)	195.4
FV gains/(losses)[3]	6							(224.7)
Effect of change in yield curve								35.6
Restructuring and one-off costs[3]	4							(4.0)
Other finance costs	4, 10							(13.4)
Loss before tax								(11.1)

Key performance indicators – period ended 30 June 2022

	Motor	Home	RoPL[2,3]	Commercial	Total Group - ongoing operations[2]	Total Group
Net insurance margin (NIM)	7.1%	20.2%	20.3%	9.4%	11.3%	10.9%
Combined operating ratio	92.9%	79.8%	79.7%	90.6%	88.7%	89.1%
Net expense ratio	20.3%	19.3%	19.1%	17.9%	19.5%	19.6%
Net acquisition costs ratio	4.9%	6.0%	7.7%	26.6%	9.9%	9.7%
Net insurance claims ratio	67.7%	54.5%	52.9%	46.1%	59.3%	59.8%
– current-year attritional	75.6%	54.6%	56.2%	54.1%	65.3%	66.7%
– prior-year reserves development	(7.9%)	(7.7%)	(3.3%)	(13.0%)	(8.5%)	(9.3%)
– major weather events	N/A	7.6%	N/A	5.0%	2.5%	2.4%
Effect of weather						
Net insurance claims ratio	N/A	(1.8%)	N/A	1.4%	(0.1%)	0.0%
Net acquisition ratio	N/A	0.3%	N/A	0.0%	0.0%	0.1%
Net insurance margin normalised for weather	N/A	18.7%	N/A	10.8%	11.2%	11.0%

Additional data to support key performance indicators – period ended 30 June 2022

	Motor	Home	RoPL[2,3]	Commercial	Total Group - ongoing operations[2]	Total Group
	£m	£m	£m	£m	£m	£m
Net insurance claims	(505.0)	(150.6)	(75.4)	(140.2)	(871.2)	(910.3)
Attritional net insurance claims	(564.0)	(150.7)	(80.1)	(164.8)	(959.6)	(1,015.2)
Prior-year reserves development	59.0	21.2	4.7	39.7	124.6	141.1
Major weather events	N/A	(21.1)	N/A	(15.1)	(36.2)	(36.2)

Normalised operating profit[3] – period ended 30 June 2022

	Total Group - ongoing operations[2]
	£m
Operating profit	197.0
Effect of:	
Ogden discount rate	—
Normalised weather - claims	(0.3)
Normalised weather - profit share	0.7
Normalised operating profit	197.4
Prior-year adjustments	
Prior-year reserves development	124.6
Ogden discount rate	—
Prior-year normalised operating profit	124.6
Current-year normalised operating profit	322.0
Current-year normalised operating profit ratio	163%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
3. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.

Management view income statement – year ended 31 December 2022

The table below analyses the Group's management view results by reportable segment for the year ended 31 December 2022 (restated[1] and unaudited).

	Notes	Motor	Home	RoPL[2,3]	Commercial	Total Group - ongoing operations[2]	Run-off partnerships[2]	Total Group
		£m	£m	£m	£m	£m	£m	£m
Gross written premium and associated fees	4	1,432.7	518.1	273.9	749.3	2,974.0	124.4	3,098.4
Instalment income		65.5	16.9	2.8	7.5	92.7	—	92.7
Movement in liability for remaining coverage		57.1	25.7	5.4	(48.6)	39.6	(1.6)	38.0
Insurance revenue	4	1,555.3	560.7	282.1	708.2	3,106.3	122.8	3,229.1
Expenses from reinsurance contracts held	4	(77.2)	(26.5)	(2.3)	(59.0)	(165.0)	(0.7)	(165.7)
Net insurance revenue		1,478.1	534.2	279.8	649.2	2,941.3	122.1	3,063.4
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(1,263.7)	(413.1)	(145.5)	(342.7)	(2,165.0)	(109.5)	(2,274.5)
Insurance claims recoverable from/(payable to) reinsurers	4	87.4	3.1	(0.7)	6.6	96.4	—	96.4
Net insurance claims		(1,176.3)	(410.0)	(146.2)	(336.1)	(2,068.6)	(109.5)	(2,178.1)
Of which:								
Prior-year reserves development		4.3	17.0	4.6	48.1	74.0	23.8	97.8
Acquisition costs		(82.4)	(33.4)	(22.0)	(157.5)	(295.3)	(2.2)	(297.5)
Operating expenses		(290.1)	(94.3)	(55.9)	(112.2)	(552.5)	(21.0)	(573.5)
Other directly attributable expenses	4	(372.5)	(127.7)	(77.9)	(269.7)	(847.8)	(23.2)	(871.0)
Insurance service result	4	(70.7)	(3.5)	55.7	43.4	24.9	(10.6)	14.3
Net investment income		72.7	13.8	3.5	24.5	114.5	0.9	115.4
Unwind of discounting of claims	4	(38.5)	(7.4)	(2.0)	(11.5)	(59.4)	(0.4)	(59.8)
Other operating income and expenses		(28.3)	(2.0)	2.9	3.9	(23.5)	(0.7)	(24.2)
Operating (loss)/profit		(64.8)	0.9	60.1	60.3	56.5	(10.8)	45.7
FV gains/(losses)[3]	6							(342.5)
Effect of change in yield curve								60.7
Restructuring and one-off costs[3]	4							(45.3)
Other finance costs	4, 10							(20.4)
Loss before tax								(301.8)

Key performance indicators – year ended 31 December 2022

	Motor	Home	RoPL[2,3]	Commercial	Total Group - ongoing operations[2]	Total Group
Net insurance margin (NIM)	(4.8%)	(0.8%)	19.8%	6.6%	0.9%	0.5%
Combined operating ratio	104.8%	100.8%	80.2%	93.4%	99.1%	99.5%
Net expense ratio	19.6%	17.7%	20.0%	17.3%	18.8%	18.7%
Net acquisition costs ratio	5.6%	6.3%	7.9%	24.3%	10.0%	9.7%
Net insurance claims ratio	79.6%	76.8%	52.3%	51.8%	70.3%	71.1%
– current-year attritional	79.9%	57.7%	53.9%	54.5%	67.7%	69.4%
– prior-year reserves development	(0.3%)	(3.2%)	(1.6%)	(7.4%)	(2.5%)	(3.2%)
– major weather events	N/A	22.3%	N/A	4.7%	5.1%	4.9%
Effect of weather						
Net insurance claims ratio	N/A	12.6%	N/A	1.3%	2.6%	2.5%
Net acquisition ratio	N/A	(0.8%)	N/A	0.0%	(0.1%)	(0.1%)
Net insurance margin normalised for weather	N/A	11.0%	N/A	7.9%	3.4%	2.9%

Additional data to support key performance indicators – year ended 31 December 2022

	Motor	Home	RoPL[2,3]	Commercial	Total Group - ongoing operations[2]	Total Group
	£m	£m	£m	£m	£m	£m
Net insurance claims	(1,176.3)	(410.0)	(146.2)	(336.1)	(2,068.6)	(2,178.1)
Attritional net insurance claims	(1,180.6)	(307.9)	(150.8)	(354.0)	(1,993.3)	(2,126.6)
Prior-year reserves development	4.3	17.0	4.6	48.1	74.0	97.8
Major weather events	N/A	(119.1)	N/A	(30.2)	(149.3)	(149.3)

Normalised operating profit[3] – year ended 31 December 2022

	Total Group - ongoing operations[2]
	£m
Operating profit	56.5
Effect of:	
Ogden discount rate	—
Normalised weather - claims	76.3
Normalised weather - profit share	(4.3)
Normalised operating profit	128.5
Prior-year adjustments	
Prior-year reserves development	74.0
Ogden discount rate	—
Prior-year normalised operating profit	74.0
Current-year normalised operating profit	202.5
Current-year normalised operating profit ratio	158%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
3. See glossary on page 61 for definitions.

Operating expenses - ongoing operations[1]

	H1 2023			H1 2022 (restated)[3]		
	Insurance service result	**Other expenses (note 7)**	**Total expenses**	**Insurance service result**	**Other expenses (note 7)**	**Total expenses**
	£m	**£m**	**£m**	£m	£m	£m
Commission expenses	**(126.6)**	**N/A**	**(126.6)**	(111.8)	N/A	(111.8)
Marketing	**(29.7)**	**N/A**	**(29.7)**	(33.4)	N/A	(33.4)
Acquisition expenses	**(156.3)**	**N/A**	**(156.3)**	(145.2)	N/A	(145.2)
Staff costs[3]	**(116.4)**	**(3.4)**	**(119.8)**	(116.2)	(3.4)	(119.6)
IT and other operating expenses[3,4]	**(71.1)**	**(9.6)**	**(80.7)**	(63.6)	(8.7)	(72.3)
Insurance levies	**(50.1)**	**N/A**	**(50.1)**	(51.5)	N/A	(51.5)
Depreciation, amortisation and impairment of intangible and fixed assets[5]	**(60.7)**	**(0.2)**	**(60.9)**	(55.5)	—	(55.5)
Operating expenses	**(298.3)**	**(13.2)**	**(311.5)**	(286.8)	(12.1)	(298.9)
Total expenses - ongoing operations	**(454.6)**	**(13.2)**	**(467.8)**	(432.0)	(12.1)	(444.1)
Total expenses - run-off partnerships	**(11.3)**	**(0.3)**	**(11.6)**	(13.7)	(0.3)	(14.0)
Restructuring and one off costs	**N/A**	**N/A**	**(8.8)**	N/A	N/A	(4.0)
Total expenses	**(465.9)**	**(13.5)**	**(488.2)**	(445.7)	(12.4)	(462.1)
Net acquisition ratio[6] - ongoing operations	**10.7%**			9.9%		
Net acquisition ratio[6] - total Group	**10.3%**			9.7%		
Net expense ratio[6] - ongoing operations	**20.5%**			19.5%		
Net expense ratio[6] - total Group	**20.3%**			19.6%		

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 2 and 21 for further details.
3. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
4. IT and other operating expenses include professional fees and property costs.
5. Includes right-of-use ("**ROU**") assets and property, plant and equipment. For the period ended 30 June 2023, there were impairment charges of £0.1 million which relate solely to own occupied freehold property (H1 2022: no impairments).
6. See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.

In-force policies (thousands)

At	**30 Jun 2023**	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022
Direct own brands	**3,607**	3,669	3,756	3,766	3,846
Partnerships	**66**	72	80	88	98
Motor	**3,673**	3,741	3,836	3,854	3,944
Direct own brands	**1,705**	1,731	1,732	1,758	1,792
Partnerships	**759**	765	769	775	779
Home	**2,464**	2,496	2,501	2,533	2,571
Rescue - ongoing operations	**2,062**	2,114	2,185	2,227	2,264
Pet	**121**	125	128	130	133
Other personal lines - ongoing operations	**106**	109	111	115	115
Rescue and other personal lines - ongoing operations	**2,289**	2,348	2,424	2,472	2,512
Of which: Green Flag Direct	**1,093**	1,073	1,106	1,136	1,156
Direct own brands[2]	**645**	643	636	644	623
NIG and other	**293**	287	277	268	261
Commercial[2]	**938**	930	913	912	884
Total in-force policies - ongoing operations[2]	**9,364**	9,515	9,674	9,771	9,911
Of which: direct own brands[2]	**7,050**	7,116	7,230	7,304	7,417
Run-off partnerships	**2,199**	2,187	2,188	3,315	3,320
Total in-force policies[2]	**11,563**	11,702	11,862	13,086	13,231

Note:

1. Ongoing operations and run-off partnerships – See glossary on pages 60 to 62 for definitions and appendix A – Alternative performance measures on pages 64 to 67 for reconciliation to financial statement line items.
2. In-force policies as at 31 December 2022 and 31 March 2023 have been restated to remove 14,500 and 19,700 direct own brand policies respectively that were previously included in the reported amounts in error.

Gross written premium and associated fees[1]

At	**Q2 2023 £m**	Q2 2022 £m	**H1 2023 £m**	H1 2022 £m
Direct own brands	**391.3**	350.3	**744.2**	688.8
Partnerships	**8.7**	9.2	**14.5**	18.0
Motor	**400.0**	359.5	**758.7**	706.8
Direct own brands	**89.1**	90.3	**183.5**	182.1
Partnerships	**34.6**	33.7	**69.2**	68.3
Home	**123.7**	124.0	**252.7**	250.4
Rescue - ongoing operations	**34.5**	36.7	**67.2**	70.3
Pet	**16.9**	18.1	**34.1**	35.7
Other personal lines - ongoing operations	**15.0**	14.5	**29.7**	29.5
Rescue and other personal lines - ongoing operations	**66.4**	69.3	**131.0**	135.5
Of which: Green Flag direct	**21.5**	21.2	**40.9**	40.5
Direct own brands	**56.8**	53.3	**119.2**	106.2
NIG and other	**196.7**	152.6	**353.6**	271.6
Commercial	**253.5**	205.9	**472.8**	377.8
Total adjusted gross written premium - ongoing operations	**843.6**	758.7	**1,615.2**	1,470.5
Of which: direct own brands	**558.7**	515.1	**1,087.8**	1,017.6
Run-off partnerships	**38.3**	30.0	**72.3**	52.6
Total gross written premium and associated fees	**881.9**	788.7	**1,687.5**	1,523.1

Note:

1. See glossary on pages 60 to 62 for definitions and appendix A – Alternative Performance Measures on pages 64 to 67 for reconciliation to financial statement line items.

RESPONSIBILITY STATEMENT

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

JON GREENWOOD
ACTING CHIEF EXECUTIVE OFFICER

6 September 2023

NEIL MANSER
CHIEF FINANCIAL OFFICER

6 September 2023

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 2023 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 21.

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 2023 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 (ISRE (UK) 2410). 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) 2410, 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

6 September 2023