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21 March 2024

DIRECT LINE INSURANCE GROUP PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

NEW TARGET OF 13% NET INSURANCE MARGIN IN 2026, UNDERPINNED BY AT LEAST £100 MILLION COST SAVINGS BY THE END OF 2025 ON AN ANNUALISED RUN-RATE BASIS[1]

Gross written premium and associated fees[2]	Net insurance margin[2]	Operating loss[2]	Solvency capital ratio pre-dividend[3]	Final dividend
£3,106.0 million **+ 27.1%**	**(8.3%)**	**£189.5 million**	**201%** **+ 54 pts**	**£52 million** **4.0 pence per share**
2022: £2,443.6 million	**Motor written net insurance margin >10% since Aug 2023**	2022: £6.4 million	2022: 147%	2022: nil

ADAM WINSLOW, CEO OF DIRECT LINE GROUP, COMMENTED:

"I am excited to have joined a company with such a strong customer base and outstanding brands. In recent weeks I have met with many colleagues, and their desire to serve customers is evident.

"The Group has not always managed volatile market conditions successfully in recent years, particularly in Motor. However, it is clear that the decisive actions that Jon Greenwood and the team have taken over the last year have created a strong platform for recovery, including significant pricing and underwriting actions to improve our Motor margins and the sale of our brokered commercial business. This has enabled the Board to propose a dividend of 4 pence per share and for the Group to have a strong post-dividend solvency capital ratio of 197% at year-end 2023.

"While the picture has improved, we need to do more to drive performance and we have identified immediate actions we can take in 2024 to create value, including substantially reducing our cost base, driving claims excellence and optimising pricing capabilities whilst returning us back to higher quotability levels.

"In addition to these near-term actions, we are currently running a comprehensive strategy review of the significant opportunities we see to deliver higher returns. We will outline the details of our refreshed strategy at a capital markets day in July, as well as update on the progress we have made on the near-term initiatives.

"With the right strategy in place and determined actions, I am confident that we can deliver run-rate annualised cost savings of at least £100 million by the end of 2025[1] and a net insurance margin, normalised for weather, of 13% in 2026."

Results summary

	FY 2023 £m	FY 2022 £m restated[4]	Change £m
Gross written premium and associated fees – ongoing operations[2,5]	**3,106.0**	2,443.6	27.1%
Insurance service result – ongoing operations[2]	**(211.8)**	(23.5)	(188.3)
Net insurance margin – ongoing operations[2,5]	**(8.3%)**	(0.9%)	(7.4pts)
Operating loss – ongoing operations[2,5]	**(189.5)**	(6.4)	(183.1)
Gain on disposal of business	**443.9**	–	–
Profit/(loss) before tax	**277.4**	(301.8)	579.2
Operating return on tangible equity[2,5]	**(14.9%)**	(2.7%)	(12.2pts)
Basic earnings/(loss) per share (pence)	**15.9**	(19.1)	35.0
Dividend per share – total (pence)	**4.0**	7.6	(47.4%)
	2023	2022	Change
In-force policies – ongoing operations (thousands)[2,5,6]	**9,442**	9,397	0.5%
Solvency capital ratio – pre-dividend[3]	**201%**	147%	54pts
Solvency capital ratio – post-dividend[3]	**197%**	147%	50pts

Financial summary

- Stable policy count overall as the introduction of over 700,000 new Motability customers offset lower policies elsewhere primarily in Motor and associated Rescue.
- Gross written premium and associated fees increased by 27.1% during 2023, with 46.2% growth in the second half.
- Net insurance margin of minus 8.3% was impacted by the continued earn through of Motor policies written during 2022 and first half of 2023. Outside of Motor, the Group delivered a good result and a net insurance margin of 12.2%.
- In Motor, premium rate increases contributed to a 5.8 percentage point improvement in the current year net insurance claims ratio in the second half of 2023. Motor policies written since August estimated to be in line with the Group's ambition of a net insurance margin of above 10%.
- Operating loss from ongoing operations of £189.5 million in 2023, compared to a loss of £6.4 million in 2022, with the adverse movement in the net insurance margin partially offset by an increase in investment income. The proceeds of the sale of the Group's brokered commercial business contributed to a profit before tax of £277.4 million, up from a loss before tax of £301.8 million in 2022.
- The Group's solvency capital ratio at the end of 2023 improved to 201%, following significant management action and benefiting from the sale of the brokered commercial business. A dividend of 4.0 pence per share is proposed, with the solvency capital ratio, post-dividend, equal to 197%.

Operational highlights and improvement plan

We have been conducting a review to identify opportunities across the value chain. Substantial progress has been made and we can now see significant opportunity to remove at least £100 million of costs by the end of 2025 on a run-rate annualised basis[1], and are targeting a new net insurance margin, normalised for weather, of 13% in 2026.

- **Reduce our cost base** – We launched a fully integrated digital claims service during 2023, improving customer choice and speed when registering motor claims online. However, there remains a substantial cost opportunity through further improvements in digital capability, reduced technology costs and removing complexity across the Group. We target at least £100 million of run-rate annualised cost savings by the end of 2025[1].
- **Improve claims performance** – During 2023 we continued to expand our vertically integrated claims management with the acquisition of our 23rd accident repair centre, enabling us to increase our in-house capacity, thereby reducing claims costs. We have now launched a claims transformation, which will initially focus on optimising our garage network and building on counter fraud efforts.
- **Optimise pricing capability** – In 2023 we upgraded our core pricing models and expanded our product offering in Motor with the launch of new product tiers in Direct Line and Darwin together with the acquisition of pay by mile insurer By Miles. In 2024 we will develop the next generation of technical pricing models and enrich these models with more internal and external data sources while enhancing fraud protection.
- **Broaden market coverage** – We have considerable brand strength in Direct Line and Churchill. In 2024 we will improve Motor PCW quotability and create a clear customer segmentation strategy and value proposition across our brand portfolio.

We welcomed over 700,000 new customers through our partnership with Motability, which we expect to generate gross written premium of around £800 million per annum.

For further information, please contact

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This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the Company is Neil Manser, Chief Financial Officer.

Notes:

1. This statement includes a quantified financial benefits statement which has been reported on for the purposes of the Takeover Code (see Appendix C).
2. Ongoing operations – the Group's ongoing operations result excludes the results of the brokered commercial business, that it sold to RSA Insurance Limited in 2023, and the Rescue and other personal lines partnerships that the Group first excluded from its 2022 results. Relevant prior-year data has been restated accordingly. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items
3. Estimates based on the Group's Solvency II partial internal model.
4. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
5. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
6. In-force policies as at 31 December 2022 have been restated to remove 14,500 ongoing Commercial policies that were previously erroneously included in the reported amounts.

CEO REVIEW

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

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

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

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

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

Reduce our cost base

This section includes a quantified financial benefits statement which has been reported on for the purposes of the Takeover Code (see Appendix C).

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

Our marketing spend can be reduced further and we will build out customer self-service options by leveraging investments the Group has already made, for example the digital Motor claims hub and the Caha! App that we launched in 2023. Across all these levers, we have identified a series of initiatives that are expected to deliver at least £100 million of run-rate annualised cost savings by the end of 2025[1]. The run-rate annualised cost savings have been considered in the context of a total addressable cost base of £849 million in 2023.

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

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

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

In realising these cost savings of at least £100 million, by the end of 2025 on a run-rate annualised basis[1], the Group is expected to deliver an expense ratio that is more in line with its comparable peer group.

Improve claims performance

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

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

Optimise pricing capability

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

Broaden market coverage

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

Financial impact of transformation programme

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

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

Furthermore, we see greater potential benefits as we move into 2025 and 2026. We have set a target to deliver cost savings of at least £100 million on an annualised run-rate basis by the end of 2025[1] and together with benefits from other areas of our transformation programme, we are targeting a net insurance margin, normalised for weather, of 13% in 2026.

Strategic review

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

Capital and dividends

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

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

Outlook

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

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

ADAM WINSLOW

CHIEF EXECUTIVE OFFICER

Note:

1. This statement includes a quantified financial benefits statement which has been reported on for the purposes of the Takeover Code (see Appendix C).

OUTGOING ACTING CEO REVIEW

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

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

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

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

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

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

2023 results

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

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

Improved our written margins in Motor

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

There are four key areas we have focused on.

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

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

Motor current-year attritional net insurance claims ratio

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

Commenced new Motability partnership

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

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

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

Good performance across non-Motor businesses

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

Resilient performance in Home

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

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

Continued growth in Commercial direct

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

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

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

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

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

Strong margins in Rescue and other personal lines

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

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

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

Expanding our products and servicing options for our customers

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

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

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

Past business reviews

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

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

Sale of Commercial brokered business

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

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

A positive start to 2024 trading

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

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

JON GREENWOOD

OUTGOING ACTING CHIEF EXECUTIVE OFFICER

Note:

In light of the announcement by Ageas SA/NV on 28 February 2024 that it was in the preliminary stages of considering a possible offer to acquire the entire issued and to be issued share capital of Direct Line Insurance Group plc, Direct Line Group is in an "offer period" for the purposes of the Takeover Code. The statements above labelled by way of a footnote as including a quantified financial benefits statement (the "**QFBS Footnoted Statements**") include “quantified financial benefits statements” for the purposes of Rule 28 of the Takeover Code, which have been reported on in accordance with the requirements of the Takeover Code in the form set out in Part A to Appendix C (the "**Quantified Financial Benefits Statement**"). Further information on the Quantified Financial Benefits Statement, including the basis of preparation and principal assumptions, are set out in Appendix C to this announcement. As required by Rule 28.1(a) of the Takeover Code, Deloitte LLP ("**Deloitte**"), as reporting accountants to Direct Line Group, have provided a report (set out in Part B of Appendix C) stating that, in their opinion, the Quantified Financial Benefits Statement has been properly compiled on the basis stated. In addition, Goldman Sachs International, Morgan Stanley and Co. International plc, RBC Europe Limited, Robey Warshaw LLP and J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) as financial advisers to Direct Line Group have provided a report (set out in Part C of Appendix C) stating that, in their opinion, and subject to the terms of the report, the Quantified Financial Benefits Statement, for which the directors the Group are responsible, has been prepared with due care and consideration. Each of Deloitte, Goldman Sachs International, Morgan Stanley & Co. International plc, RBC Europe Limited, Robey Warshaw LLP and J.P. Morgan Securities plc has given and has not withdrawn its consent to the publication of its report in the form and context in which it is included.

Group financial performance

	Notes	2023	2022	Change
Ongoing operations[1]				
In-force policies[2] (thousands)		**9,442**	9,397	0.5%
		FY 2023	FY 2022	Change
	Notes	**£m**	£m (restated[3])	£m
Ongoing operations[1]				
Gross written premium and associated fees[4]		**3,106.0**	2,443.6	27.1%
Net insurance revenue[4]		**2,547.5**	2,481.8	2.6%
Insurance service result - ongoing operations[1]		**(211.8)**	(23.5)	(188.3)
Net insurance margin[4]		**(8.3%)**	(0.9%)	(7.4pts)
Combined operating ratio[4]		**108.3%**	100.9%	(7.4pts)
Net insurance claims ratio[4]		**81.8%**	74.9%	(6.9pts)
Net acquisition ratio[4]		**6.8%**	7.0%	0.2pts
Net expense ratio[4]		**19.7%**	19.0%	(0.7pts)
Normalised net insurance margin[4]		**(9.6%)**	1.7%	(11.3pts)
Investment income		**141.8**	94.1	50.7%
Unwind of discounting of claims[4]		**(118.7)**	(50.4)	(68.3)
Other operating income and expenses before restructuring and one-off costs		**(0.8)**	(26.6)	97.0%
Operating loss - ongoing operations[1 4]		**(189.5)**	(6.4)	(183.1)
Of which:				
Current-year operating loss[4]		**(43.8)**	(41.8)	(2.0)
Prior-year reserve development		**(145.7)**	35.4	(181.1)
Fair value gains/(losses)[4]		**124.4**	(342.5)	136.3%
Effect of change in yield curve[4]		**(25.5)**	60.7	(142.0%)
Restructuring and one-off costs		**(59.5)**	(45.3)	(31.3%)
Brokered commercial business		**27.6**	62.9	(56.1%)
Run-off partnerships[1]		**(29.5)**	(10.8)	(18.7)
Other finance costs		**(14.5)**	(20.4)	28.9%
Gain on disposal of business		**443.9**	—	0.0%
Profit/(loss) before tax		**277.4**	(301.8)	579.2
Tax (charge)/credit		**(54.5)**	69.9	(124.4)
Profit/(loss) for the year attributable to the owners of the Company		**222.9**	(231.9)	454.8
KPIs				
Operating return on tangible equity[4]		**(14.9%)**	(2.7%)	(12.2pts)
Basic earnings/(loss) per share (pence)	10	**15.9**	(19.1)	35.0
Diluted earnings/(loss) per share (pence)	10	**15.7**	(19.1)	34.8
Operating loss per share (pence)		**(12.8)**	(2.7)	(10.1)
Return on equity[4]	11	**10.6%**	(11.6%)	22.2pts
Investments metrics				
Investment income yield[4]		**3.5%**	2.1%	1.4pts
		2023	2022	Change
Capital and returns metrics				
Dividend per share – total ordinary (pence)		**4.0**	7.6	(47.4%)
Net asset value per share (pence)	11	**158.6**	142.1	11.6%
Tangible net asset value per share (pence)		**95.5**	78.8	21.2%
Solvency capital ratio – post dividends[5]		**197%**	147%	50pts

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 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 1 and 21 for further details.
4. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
5. Estimates based on the Group's Solvency II partial internal model.

Group financial performance

Ongoing operations[1]	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies (thousands)[2,3]	**9,442**	9,518	9,071	9,228	9,397

	FY 2023 £m	FY 2022 £m restated[4]	Change
Gross written premium and associated fees[2,4]	**3,106.0**	2,443.6	27.1%
Insurance service result			
Motor	**(331.6)**	(70.7)	(369.0%)
Home	**50.2**	(3.5)	1534.3%
Rescue and other personal lines - ongoing operations[1]	**42.0**	55.7	(24.6%)
Commercial	**27.6**	(5.0)	652.0%
Insurance service result - total ongoing operations	**(211.8)**	(23.5)	(801.3%)
Net investment income	**141.8**	94.1	50.7%
Unwind of discounting of claims[5]	**(118.7)**	(50.4)	(135.5%)
Other operating income and expenses before restructuring and one-off costs	**(0.8)**	(26.6)	97.0%
Operating loss - ongoing operations[5]	**(189.5)**	(6.4)	(2860.9%)
Net insurance margin[5]	**(8.3%)**	(0.9%)	(7.4pts)
Net insurance claims ratio[5]	**81.8%**	74.9%	(6.9pts)
Current-year attritional net insurance claims ratio[5]	**75.1%**	71.3%	(3.8pts)
Prior-year reserves development ratio[5]	**5.7%**	(1.4%)	(7.1pts)
Major weather events ratio[5]	**1.0%**	5.0%	4.0pts
Net acquisition ratio[5]	**6.8%**	7.0%	0.2pts
Net expense ratio[5]	**19.7%**	19.0%	(0.7pts)
Normalised net insurance margin[5]	**(9.6%)**	1.7%	(11.3pts)

IFRS17 and description of operating (loss)/profit

This is the first set of annual 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 loss for ongoing operations. Significant items excluded from operating loss for ongoing operations include the results from certain partnerships that are now in run-off, the results from the brokered commercial business, the sale of which we announced in September, fair value movements on investments and the effect of changes of discount rates on brought forward claims reserves. These items are discussed later in this report.

2023 performance

Overall, gross written premium grew by 27.1% in 2023 however, operating profit was adversely affected by the earn through of below target margin Motor policies that were written in 2022 and the first half of 2023, alongside remediation provisions arising from past business reviews. Outside of Motor, results in Home, Rescue and Commercial were good and benefited from relatively benign weather conditions. Net investment income improved due to the effect of higher interest rates and this was largely offset by an increase in the unwinding of previous periods discounting. Overall operating loss for ongoing operations was £189.5 million, split between an operating loss of £319.6 million in Motor and an operating profit of £130.1 million outside of Motor.

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 December, in line with the end of 2022 as the introduction of over 700,000 new Motability customers offset a reduction in the number of own brand policies. Own brand policy reductions were largest in Motor, where we strongly increased premiums to achieve target margins. This also led to a reduction in linked Rescue policies.

Gross written premium and associated fees from ongoing operations grew by 27.1% to £3,106.0 million in 2023, predominantly due to premium rate increases and the contribution from the Motability partnership delivering strong growth of 42.9% in Motor, 10.1% in Commercial and 6.4% in Home, offset by a small decline in Rescue and other personal lines.

Total Group in-force policies were 12.0 million which was in line with 2022, and gross written premium and associated fees was £3,921.9 million compared with £3,098.4 million in 2022.

Insurance service result[1]

In 2023, the Group's net insurance margin was minus 8.3% (2022: minus 0.9%) and normalised for weather, it was minus 9.6% (2022: 1.7%). This represents an insurance service result from ongoing operations of a loss of £211.8 million, compared with a loss of £23.5 million in 2022.

Ongoing operations (£ million)	2023	2022	Variance
Insurance service result	**(211.8)**	(23.5)	(188.3)
Of which:			
Motor - current year	**(193.2)**	(75.0)	(118.2)
Motor - prior year	**(138.4)**	4.3	(142.7)
Home	**50.2**	(3.5)	53.7
Rescue and other personal lines	**42.0**	55.7	(13.7)
Commercial	**27.6**	(5.0)	32.6

This £188.3 million deterioration in the ongoing operations insurance service result was predominantly driven by Motor, with prior year strengthening alongside an adverse movement in current year reflecting the earn through of lower margin business. This was partially offset by more benign weather conditions helping deliver a £53.7 million improvement in Home's profitability, alongside a recovery in the Commercial result.

We are currently conducting two past business reviews and approximately £104 million was recognised for these in 2023. Excluding these provisions, the net insurance margin would have been 4.1 percentage points better.

Impact of past business reviews on reported net insurance margin

	Ongoing operations		Motor		Home	
	2023	2022	**2023**	2022	**2023**	2022
Motor total loss £m	78	28	78	28	—	—
Pricing practices £m	26	18	14	13	12	5
Total cost of customer remediation £m	**104**	**46**	**92**	**41**	**12**	**5**
Reported net insurance margin	**(8.3%)**	**(0.9%)**	**(21.1%)**	**(4.8%)**	**10.0%**	**(0.8%)**
Remediation impact (pts)	4.1pts	1.8pts	5.9pts	2.8pts	2.1pts	1.1pts
Adjusted net insurance margin	(4.2%)	0.9%	(15.2%)	(2.0%)	12.1%	0.3%

The insurance service result for Motor was a £331.6 million loss (2022: £70.7 million loss) with a 15.9pts increase in the Motor net insurance claims ratio. This reflected the earn through of below target margin business written during 2022 and in the first half of 2023, alongside adverse experience on prior-year reserves. Performance improved in the second half of 2023, with the net current year claims ratio 5.8 percentage points better than the first half of 2023 as higher premiums from rate increases started to earn through, together with a more stable claims environment.

Outside of Motor, our other ongoing business areas delivered a good set of results, with a cumulative insurance service result of £119.8 million across Home, Rescue and other personal lines and Commercial (2022: £47.2 million) and a net insurance margin of 12.2% (2022: 4.7%).

Overall, the Group delivered a net insurance claims ratio from ongoing operations of 81.8% (2022: 74.9%).

The current year attritional claims ratio increased by 3.8pts to 75.1% primarily driven by a 6.8pts increase in Motor. Outside of Motor, Home and Rescue and other personal lines saw modest increases in their current year attritional claims ratios, offset by a significant improvement in Commercial.

Weather-related claims for ongoing operations in the year were £27 million, less than our 2023 assumption for ongoing operations of £59 million and £122 million lower than prior year. Our 2024 weather-related claims assumption for Home and Commercial combined is £62 million.

Prior-year reserve movements were impacted by a £138.4 million reserve strengthening in Motor which included a £78 million increase in the cost for the remediation from the total loss past business review. This delivered a deterioration in the prior-year reserve movement from ongoing operations from a release of £35.4 million in 2022 to a strengthening of £146 million in 2023. Outside of Motor, Home saw a £8.9 million release, but this was offset by a strengthening within the Commercial Van product. As previously set out, the opportunity for prior-year reserve releases in the short term remains low.

The net acquisition ratio from ongoing operations decreased by 0.2pts to 6.8%, as a reduction in marketing costs was only partially offset by an increase in commissions. The expense ratio from ongoing operations increased by 0.7pts to 19.7% primarily due to higher amortisation and depreciation costs as well as underlying inflation in IT and other costs. Staff costs increased by less than wage inflation.

In 2024 we expect the expense ratio for ongoing operations will be broadly stable.

Expenses in insurance service result

	FY 2023 £m	FY 2022 (restated)[3] £m
Commission expenses	**(111.1)**	(95.9)
Marketing	**(62.7)**	(77.9)
Acquisition expenses	**(173.8)**	(173.8)
Staff costs[6]	**(194.6)**	(188.6)
IT and other operating expenses[6,7]	**(102.9)**	(85.6)
Insurance levies	**(81.2)**	(83.0)
Depreciation, amortisation and impairment of intangible and fixed assets[8]	**(123.4)**	(114.9)
Operating expenses	**(502.1)**	(472.1)
Total expenses – ongoing operations	**(675.9)**	(645.9)
Total expenses – run-off partnerships	**(24.5)**	(23.2)
Total expenses – brokered commercial business	**(207.5)**	(1.8)
Total expenses	**(907.9)**	(871.0)
Net acquisition ratio[5] – ongoing operations	**6.8%**	7.0%
Net acquisition ratio[5] – total Group	**9.3%**	9.7%
Net expense ratio[5] – ongoing operations	**19.7%**	19.0%
Net expense ratio[5] – total Group	**19.7%**	18.7%

Investment result and unwind of discount rate[1]

Net investment income increased to £141.8 million (2022: £94.1 million) primarily driven by yield improvements in variable rate asset classes benefiting from a rising interest rate environment. This represents an investment income yield of 3.5%. Based on current yields, we estimate an investment income yield of around 3.8% for 2024 and 3.9% for 2025.

	FY 2023 £m	FY 2022 £m restated[4]
Investment income	**149.1**	101.9
Investment fees	**(7.3)**	(7.8)
Net investment income	**141.8**	94.1
Insurance and reinsurance finance expenses - unwind of discounting of claims	**(118.7)**	(50.4)
Finance income and expenses in operating profit	**23.1**	43.7

	FY 2023	FY 2022
Investment income yield (total Group)[5]	**3.5%**	2.1%

The increase in investment income was offset by an increase in the unwind of the discounting of claims. The unwinding of prior-period discounting in 2024 is expected to be similar to 2023.

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

	Note	FY 2023 £m	FY 2022 £m restated[4]
Motor		**(319.6)**	(64.8)
Home		**52.4**	0.9
Rescue and other personal lines - ongoing operations[1]		**48.0**	60.1
Commercial		**29.7**	(2.6)
Operating loss - ongoing operations[1]		**(189.5)**	(6.4)
Operating profit - brokered commercial business[1]		**27.6**	62.9
Operating loss - run-off partnerships[1]		**(29.5)**	(10.8)
Operating (loss)/profit - total Group		**(191.4)**	45.7
Restructuring and one-off costs		**(59.5)**	(45.3)
Net fair value gains/(losses)[5]		**124.4**	(342.5)
Net insurance finance income - effect of change in yield curve		**(25.5)**	60.7
Gain on disposal of business		**443.9**	—
Other finance costs		**(14.5)**	(20.4)
Tax (charge)/credit		**(54.5)**	69.9
Profit/(loss) for the year attributable to the owners of the Company		**222.9**	(231.9)
Basic earnings/(loss) per share (pence)	10	**15.9**	(19.1)
Operating return on tangible equity[5]		**(14.9%)**	(2.7%)

Ongoing operations and run-off segments[1]

The Group has excluded the results of the brokered commercial business and three run-off partnerships from its ongoing results.

Results relating to ongoing operations are clearly referenced. Note 3 (Segmental analysis) has also been amended to reflect the change. The insurance service result including run-off segments was a loss of £251.4 million (2022: £14.3 million profit).

Brokered commercial business

The Group has excluded the results of the brokered commercial business from its ongoing results and has restated all relevant comparatives across this review. We agreed the transfer of the Group's brokered commercial lines insurance business and associated partnerships to Royal and Sun Alliance Insurance Limited with effect from 1 October 2023 through a combination of quota share reinsurance and a form of renewal rights transfer. As a result, the economic effect of the brokered commercial insurance business moved to Royal and Sun Alliance Insurance Limited and the back book of policies has remained with the Group. The operating profit relating to the brokered commercial business in 2023 was £27.6 million (2022: £62.9 million). The formal separation and operational transfers are expected to start in the second quarter of 2024, with subsequent transfers of outstanding elements of the overall brokered commercial insurance business to follow.

Run off partnerships

These partnerships are in Travel and Rescue and have either been exited or termination has been initiated. This will reduce the Group's exposure to low margin packaged bank accounts so it can redeploy capital to segments with higher return opportunities. The two Travel partnerships were with NatWest Group and Nationwide Building Society and expire in 2024. The Rescue partnership was with NatWest Group and expired in December 2022. The operating loss relating to run off partnerships in 2023 was £29.5 million (2022: £10.8 million loss).

Net fair value gains/(losses)

Net fair value gains in the period were £124.4 million, a significant improvement on 2022 reflecting the tightening of credit spreads and interest rate movements (2022: £342.5 million loss).

Net insurance finance income

The net insurance finance expenses reflects the effect of changes in the yield curve and the ASHE index on the discounting of previously recognised PPO claims.

Restructuring and one-off costs

The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.

Gain on disposal of brokered commercial business

In 2023 the Group announced the sale of its brokered commercial business for a consideration of £520 million, which was received by the Group in October. After deducting £76.1 million for transaction costs, disposal of assets, and asset impairment, this resulted in a gain on disposal of £443.9 million.

Other finance costs

Other finance costs fell to £14.5 million (2022: £20.4 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 2023 was 19.6% (2022: 23.2%), which was lower than the standard UK corporation tax rate of 23.5% (2022: 19.0%). This was driven primarily by the offset of capital losses brought forward, which had not previously been recognised in deferred tax, together with tax relief for coupon payments on the Group's Tier 1 notes, which are accounted for as a distribution, partly offset by disallowable expenses and the tax effect of a property revaluation.

Due to the offset of capital losses against the capital gain arising on the sale of the brokered commercial business in 2023, the ETR is lower than the restated ETR for 2022, which reflected the rate differential between the in-force corporation tax rate for 2022 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 to be relieved in subsequent periods at higher standard tax rates.

Operating return on tangible equity [1,5]

The operating return on tangible equity decreased by 12.2pts to minus 14.9% (2022: minus 2.7%) due primarily to the increase in the Group's operating loss from ongoing operations.

Earnings/(loss) per share

The basic earnings per share for period was 15.9 pence (2022: loss of 19.1 pence). Diluted earnings per share was 15.7 pence (2022: loss of 19.1 pence), mainly reflecting the Group's post-tax profit for the calculation of earnings per share in 2023 compared with a post-tax loss in 2022. Operating loss per share was 12.8 pence (2022: 2.7 pence).

The financial performance of the Group is discussed in detail on pages 9 to 13. The calculation of earnings/(loss) per share is presented in note 10 on page 55. The calculation of operating loss per share is presented on page 87.

Notes:

1. Ongoing operations – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 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 1 and 21 for further details.
5. See glossary on pages 78 to 80 for definitions and appendix A – Alternative performance measures on pages 84 to 87 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 year ended 31 December 2023, there were no impairment charges which relate solely to own occupied freehold property (2022: no impairments).

Cash flow

	Note	2023 £m	2022 £m restated[1]
Net cash generated from operating activities		**404.9**	800.2
Of which:			
Operating cash flows before movements in working capital		**(284.6)**	26.7
Movements in working capital		**416.6**	49.6
Tax paid		**(30.9)**	(44.5)
Cash generated from investment of insurance assets		**304.4**	768.1
Net cash generated from/(used in) investing activities		**398.3**	(100.8)
Net cash used in financing activities		**(51.8)**	(657.5)
Net increase in cash and cash equivalents	17	**751.4**	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	17	**1,689.8**	938.4

Note:

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

The Group's cash and cash equivalents increased by £751.4 million during the year (2022: £41.9 million increase) to £1,689.8 million.

The Group had an operating cash outflow before movements in working capital of £284.6 million (2022: inflow £26.7 million), a reduction of £311.3 million due to an increase in non-cash movements. After taking into account movements in working capital, the Group's cash inflow was £100.5 million (2022: inflow £32.1 million), an increase of £68.4 million. The Group has considerable assets under management, the cash generated from these assets decreased by £463.7 million to £304.4 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 £404.9 million (2022: £800.2 million).

Net cash generated from investing activities of £398.3 million primarily reflected net proceeds from the sale of the brokered commercial business of £469.7 million, offset by the Group's continuing investment in its major IT programmes (2023: £124.1 million, 2022: £108.4 million).

Net cash used in financing activities of £51.8 million included £16.6 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 £10.8 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 £404.9 million the Group generated from operating activities and £398.3 million generated from investing activities more than offset net cash used in financing activities and resulted in a net increase in cash and cash equivalents of £751.4 million (2022: £41.9 million increase) to £1,689.8 million (2022: £938.4 million). The sale of the Group's brokered commercial business contributed £469.7 million to the net increase in cash and cash equivalents. 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

	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies (thousands)	**4,181**	4,236	3,673	3,741	3,836
Of which:					
Direct own brands[1]	**3,373**	3,441	3,607	3,669	3,756
Partnerships	**808**	795	66	72	80

	FY 2023 £m	FY 2022 £m restated[2]	Change
Gross written premium and associated fees[3]	**2,047.8**	1,432.7	42.9%
Direct own brands[1]	**1,575.7**	1,398.5	12.7%
Partnerships	**472.1**	34.2	1280.4%
Operating loss[3]	**(319.6)**	(64.8)	(254.8)
Loss before other finance costs	**(274.4)**	(252.3)	(8.8%)
Net insurance margin[3]	**(21.1%)**	(4.8%)	(16.3pts)
Net insurance claims ratio[3]	**95.5%**	79.6%	(15.9pts)
Current-year attritional net insurance claims ratio	**86.7%**	79.9%	(6.8pts)
Prior-year reserves development ratio	**8.8%**	(0.3%)	(9.1pts)
Net acquisition ratio[3]	**5.7%**	5.6%	(0.1pts)
Net expense ratio[3]	**19.9%**	19.6%	(0.3pts)

The Motor result was adversely affected by the earn through of below target margin policies which were written in 2022 and the first half of 2023. The Group has taken significant pricing and underwriting actions and therefore believes it has been underwriting consistent with a net insurance margin of above 10% for the majority of the second half of 2023.

In-force policies and gross written premium and associated fees

In response to market wide claims inflation, the motor market experienced significant price inflation during 2023. Market average premiums increased by around 25%[4] which led to an increase in customer shopping and a reduction in market retention rates. The Group applied significant rate increases across its own brand portfolio during the year which delivered an increase in own brand average premiums of 28%[5].

The Group's actions to improve profitability led to an increase in direct own brand gross written premium and associated fees of 12.7% compared with 2022 despite in-force policies reducing by 10.2% over the period. Policy count loss was greatest in Q3 as rate increases worked through and decelerated during Q4, as new business competitiveness and retention rates improved. Following the commencement of the partnership with Motability, total Motor gross written premium and associated fees grew by 42.9% compared with 2022 and in-force policies grew by 9.0% over the period.

Underwriting

Market wide claims inflation remained a feature during 2023 although trends stabilised in the second half of the year. In the first half our view of 2022 severity inflation deteriorated, due to repair inflation and high levels of total losses arising from industry repair backlogs.

In the second half, we reduced repair times across the network and used car prices began to deflate whereas inflation persisted in the cost of parts and labour rates. These trends resulted in attritional claims severity inflation of around 9% in 2023, in line with our expectation of high single digits. Outside of damage, in 2023 we experienced a higher number of large bodily injury claims.

Prior year reserves were strengthened by £138 million in 2023 primarily reflecting a combination of increased damage costs from industry backlogs in the first half of the year and costs associated with the remediation for the Motor total loss past business review.

In 2024 we expect attritional inflation to remain in high single digits.

Net insurance margin and loss

These factors delivered a higher net insurance claims ratio in 2023, with an increase of 15.9pts compared with 2022. However, the significant pricing actions taken throughout the year began to come through in improved margins in the second half of 2023, and together with the new Motability partnership, delivered a 5.8 percentage point improvement in the current year net insurance claims ratio compared with the first half of 2023.

Overall, the net insurance margin was minus 21.1% and the operating loss was £319.6 million in 2023.

Loss before other finance costs

Loss before other finance costs increased from a loss of £252.3 million in 2022 to a loss of £274.4 million in 2023 due to the factors described above.

Home

	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies (thousands)	**2,444**	2,434	2,464	2,496	2,501
Of which:					
Direct own brands[1]	**1,706**	1,686	1,705	1,731	1,732
Partnerships	**738**	748	759	765	769

	FY 2023 £m	FY 2022 £m restated[2]	Change
Gross written premium and associated fees[3]	**551.5**	518.1	6.4%
Of which:			
Direct own brands[1]	**408.8**	381.5	7.2%
Partnerships	**142.7**	136.6	4.5%
Operating profit[3]	**52.4**	0.9	51.5
Profit/(loss) before other finance costs	**71.7**	(30.7)	102.4
Net insurance margin[3]	**10.0%**	(0.8%)	10.8pts
Net insurance claims ratio[3]	**62.3%**	76.8%	14.5pts
Current-year attritional net insurance claims ratio	**59.2%**	57.7%	1.5pts
Prior-year reserves development ratio	**(1.8%)**	(3.2%)	1.4pts
Major weather events ratio	**4.9%**	22.3%	(17.4pts)
Net acquisition ratio[3]	**8.4%**	6.3%	(2.1pts)
Net expense ratio[3]	**19.3%**	17.7%	(1.6pts)
Normalised net insurance margin[3]	**4.2%**	11.0%	(6.8pts)

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

In-force policies and gross written premium and associated fees

Following challenging market conditions during 2022, the home market experienced increased pricing in 2023 with an estimated increase in market prices of 41%. This reflected increases in reinsurance costs alongside the inflationary pressures on escape of water claims from the severe freeze event in December 2022. These trends led to increased shopping in the market and enabled the Group to deliver a 42% increase in new business sales. The Group increased prices during 2023 to reflect our view of claims inflation and increased reinsurance costs, which resulted in average premium in direct own brands increasing by 12%. Retention remained strong across the period.

Overall gross written premium and associated fees increased by 6.4% compared to 2022, or 7.7% when adjusted to remove the impact of remediation. In-force policies reduced by 2.3% during the year, however own brands returned to growth in the fourth quarter.

Underwriting

Underlying claims trends for 2023 remained elevated, albeit in line with our expectations of mid- single digits. We experienced an increase in escape of water severity for claims received late in 2022 around the time of the December freeze event, which reduced prior-year reserve releases compared to 2022.

Despite a high frequency of named weather events in the year, weather-related claims at £25 million (2022: £119 million) were below our assumptions for the year demonstrating good underwriting management of flood exposure. The full year 2024 weather event claims assumption is £54 million and the impact of freeze and flood events in early 2024 is estimated at £22 million.

Net insurance margin and profit

These factors combined led to a 14.5pts improvement in the claims ratio to 62.3%, with lower weather claims more than offsetting the impact of reduced prior-year reserve releases. Normalised for the impact of weather and excluding prior-year reserve movements, the attritional claims ratio increased by 1.5 percentage points between 2022 and 2023, due to the impact of elevated inflation and 2022 benefiting from the earn through of premiums written prior to the introduction of the FCA's PPR regulations.

The net insurance margin was 10.0% with operating profit of £52.4 million. Excluding the impact of remediation, the net insurance margin was 12.1%, and 6.3% when normalised for weather and remediation.

The planned rollout of our new Home platform in 2024 is intended to enable longer-term trading and product development opportunities.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £30.7 million to profit of £71.7 million due to the factors described above alongside higher net investment income.

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

	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies (thousands)	**2,172**	2,196	2,289	2,348	2,424
Of which:					
Rescue - ongoing operations	**1,965**	2,000	2,062	2,114	2,185
Of which Green Flag direct	**1,048**	1,062	1,093	1,073	1,106
Pet	**112**	116	121	125	128
Other personal lines - ongoing operations	**95**	80	106	109	111

	FY 2023 £m	FY 2022 £m restated[2]	Change
Gross written premium and associated fees[3]	**265.7**	273.9	(3.0%)
Of which:			
Rescue - ongoing operations	**137.3**	143.7	(4.5%)
Of which Green Flag direct	**85.1**	88.2	(3.5%)
Pet	**66.5**	70.8	(6.1%)
Other personal lines - ongoing operations	**61.9**	59.4	4.2%
Operating profit[3]	**48.0**	60.1	(20.1%)
Profit before other finance costs	**53.8**	52.7	2.1%
Net insurance margin[3]	**15.6%**	19.8%	(4.2pts)
Net insurance claims ratio[3]	**57.0%**	52.3%	(4.7pts)
Current-year attritional net insurance claims ratio	**56.6%**	53.9%	2.7pts
Prior-year reserves development ratio	**0.4%**	(1.6%)	2.0pts
Net acquisition ratio[3]	**4.6%**	7.9%	3.3pts
Net expense ratio[3]	**22.8%**	20.0%	(2.8pts)

Overall Rescue and other personal lines delivered strong margins with a net insurance margin of 15.6%, providing £48.0 million diversified operating profit for the Group. Gross written premium was broadly flat during the year, with modest reductions in Rescue and Pet, partially offset by growth in our medium to high net worth business, UK Select. Operating profit of £48.0 million was lower than the prior year primarily due to higher claims costs and prior year strengthening in other personal lines.

Rescue

Rescue's gross written premium from ongoing operations was 4.5% lower in 2023 with in-force policies reducing by 10.1%. The largest fall was in Linked where Rescue is sold alongside a Motor policy.

Rescue experienced increases in claims frequency and modest claims inflation which was mitigated by self-help actions taken across its managed network. Green Flag increased its prices towards the end of 2023 which delivered additional premium with minimal impact on sales or retention.

Overall, Rescue's ongoing operations delivered operating profit of £47.6 million in 2023 (2022: £53.7 million), with an attractive net insurance margin of 29.0%. A fleet of Green Flag branded patrol vehicles is being rolled out following a successful pilot. This aims to help mitigate the impact of claims inflation and offer new revenue opportunities through vehicle related sales at the roadside.

Other personal lines

Other personal lines is made up of Pet, Travel, Creditor and Select, our insurance targeted at mid- to high-net worth customers. Pet is the largest product within Other personal lines. Pet gross written premiums fell 1.4% as in-force policies reduced by 14.4%. Overall Other personal lines made an operating profit of £0.4 million in 2023.

Profit before other finance costs

Profit before other finance costs increased by £1.1 million to £53.8 million due the factors set out above.

Commercial[6]

	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies[7] (thousands)	**645**	652	645	643	636

	FY 2023 £m	FY 2022 £m restated[2]	Change
Gross written premium and associated fees[3]	**241.0**	218.9	10.1%
Operating profit/(loss)[3]	**29.7**	(2.6)	32.3
Profit/(loss) before other finance costs	**34.4**	(10.1)	44.5
Net insurance margin[3]	**13.1%**	(2.7%)	15.8pts
Net insurance claims ratio[3]	**57.9%**	66.9%	9.0pts
Current-year attritional net insurance claims ratio	**49.8%**	69.3%	(19.5pts)
Prior-year reserves development ratio	**7.1%**	(5.0%)	12.1pts
Major weather events ratio	**1.0%**	2.6%	(1.6pts)
Net acquisition ratio[3]	**14.1%**	19.0%	4.9pts
Net expense ratio[3]	**14.9%**	16.8%	1.9pts
Normalised net insurance margin[3]	**11.4%**	(2.4%)	13.8pts

Following the sale announced in 2023, the brokered commercial business is reported as being in run-off. Results for prior periods have been restated.

Commercial continued to trade well in 2023, maintaining its premium growth whilst delivering strong margins. Commercial sells SME cover under the Direct Line for business and Churchill brands, both direct to customer and through price comparison websites. Landlord insurance is the largest product by premium followed by Van.

In-force policies and gross written premium and associated fees

Through a combination of both policy count growth and premium rate increases, Commercial delivered policy growth of 1.4% and gross written premium growth of 10.1% during 2023.

Both Direct Line and Churchill delivered strong premium growth across all products in 2023, Direct Line grew policy count by 1.3% and premiums by 7.0% while Churchill delivered 23.7% premium growth and policy count was stable.

In Landlord, whilst new business volumes were lower than 2022, it was a positive market backdrop, against which the Group was able to expand its footprint in multi property policies, delivering gross written premium growth of 14.5% and policy count growth of 3.4%.

In Van, in response to elevated inflation, average premiums increased across the market during 2023, driving an increase in new business sales and reductions in market retention rates. The Group focused on maintaining margins, with significant rate increases delivering gross written premium growth of 5.1%, alongside a reduction in policy count of 6.0%.

Underwriting

Commercial's claims ratio improved by 9.0pts to 57.9% during 2023. Alongside relatively benign weather conditions, the focus on maintaining margins more than offset a £15 million prior year reserve strengthen, predominantly driven by the impact of elevated claims inflation in Van.

Net insurance margin and profit

Overall, these factors combined led to a net insurance margin of 13.1% (2022 minus 2.7%) with operating profit of £29.7 million. Normalised for weather the net insurance margin was 11.4%.

Profit/(loss) before other finance costs

Profit/(loss) before other finance costs increased from a loss of £10.1 million to profit of £34.4 million due to the factors described above alongside higher net investment income.

Brokered commercial business

On 6 September 2023 we announced the sale of our brokered commercial business and we are presenting the results for this business as a separate segment.

2023 results

Gross written premium and associated fees were £665.8 million (2022: £530.4 million). The operating profit relating to the brokered commercial business was £27.6 million (2022: £62.9 million).

Run-off partners[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 was fully run off by the end of 2023. 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. Together, these travel partnerships represent around 2.2 million in-force policies.

On 31 January 2024 our contract with NatWest ended and all business was transferred to the new provider. The Nationwide contract will end on 30 April 2024 although policy upgrades will continue to be underwritten by the Group until 30 April 2025.

2023 results

Gross written premium and associated fees were £150.1 million (2022: £124.4 million). The operating loss relating to run-off partnerships in 2023 was £29.5 million (2022: £10.8 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 1 and 21 for further details.
3. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
4. Source: ABI motor premium tracker as at Q4 2023.
5. Average premium and rate figures quoted relate to Motor direct own brands excluding the By Miles brand.
6. Ongoing operations – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 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."

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

The final dividend is to be recommended to the shareholders at the annual general meeting scheduled for 8 May 2024 and paid on 17 May 2024 to shareholders on the register on 5 April 2024. The ex-dividend date will be 4 April 2024.

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 31 December 2023.

Capital position

At 31 December 2023, the Group held a Solvency II capital surplus of £1.10 billion above its regulatory capital requirements, which was equivalent to an estimated solvency capital ratio of 197%.

At 31 December	**2023**	2022
Solvency capital requirement (£ billion)	**1.13**	1.21
Capital surplus above solvency capital requirement (£ billion)	**1.10**	0.57
Solvency capital ratio pre-dividends	**201%**	147%
Solvency capital ratio post-dividends	**197%**	147%

Movement in capital surplus

	2023 £bn	2022 £bn
Capital surplus at 1 January	**0.57**	1.03
Capital generated/(used) excluding market movements	**0.56**	(0.06)
Market movements	**0.06**	(0.12)
Capital generated/(used)	**0.62**	(0.18)
Change in solvency capital requirement	**0.08**	0.14
Surplus generated/(used)	**0.70**	(0.04)
Capital expenditure	**(0.15)**	(0.12)
Repayment of subordinated Tier 2 notes	**–**	(0.25)
Interim dividend	**–**	(0.10)
Final dividend	**(0.05)**	—
Removal of second tranche of share buyback	**–**	0.05
Decrease in ineligible Tier 3 capital	**0.03**	—
Net surplus movement	**0.53**	(0.46)
Capital surplus at 31 December	**1.10**	0.57

Note:

1. At 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

During 2023, the Group generated £0.62 billion of Solvency II capital after market movements, supported by the proceeds of the sale of the Group's brokered commercial business. After capital expenditure of £0.15 billion and foreseeable dividend of £0.05 billion, the net surplus for the year increased by £0.53 billion to £1.10 billion.

Change in solvency capital requirement

	2023 £bn
Solvency capital requirement at 1 January	**1.21**
Model and parameter changes	**0.07**
Exposure changes	**(0.03)**
Adjustments relating to the sale of the brokered commercial insurance business	**(0.12)**
Solvency capital requirement at 31 December	**1.13**

During 2023, the Group's SCR reduced by £0.08 billion to £1.13 billion, primarily due to the sale of the Group's brokered commercial business, partially offset by higher reserve risk.

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 31 December 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 31 December	2023	2022
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"	**(9pts)**	(10pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(7pts)**	(10pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[2]	**(15pts)**	(10pts)
100bps increase in credit spreads[3]	**(5pts)**	(5pts)
100bps decrease in interest rates with no change in the PPO discount rate[4]	**(6pts)**	(2pts)

Notes:

1. Sensitivities are calculated on the assumption that full tax benefits can be realised.
2. The periodic payment order ("**PPO**") inflation assumption used is an actuarial judgement which is based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve excluding any change in discount rate. Scenario updated to the latest PPO inflation assumptions with discount rates held constant.
3. Includes only the impact on assets held at FVTPL (excludes assets held at amortised cost) and assumes no change to the SCR.
4. Scenario updated to latest PPO inflation assumptions and to include change in expected investment return on cash holdings. The 2022 sensitivity has been restated on a like for like basis.

Own funds

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

At 31 December	2023 £bn	2022 £bn
Tier 1 capital – unrestricted	**1.59**	1.07
Tier 1 capital – restricted	**0.32**	0.32
Less reclassified restricted Tier 1 debt[1]	**–**	(0.05)
Eligible Tier 1 capital	**1.91**	1.34
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.22**	0.26
Tier 3 capital – deferred tax	**0.10**	0.21
Ineligible Tier 3 capital[2]	**–**	(0.03)
Total eligible own funds	**2.23**	1.78

Notes:

1. As at 31 December 2023, none (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 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount of Tier 3 capital permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

During 2023, the Group's eligible own funds increased from £1.78 billion to £2.23 billion. Eligible Tier 1 capital after foreseeable distributions represents 86% of own funds and 169% of the estimated SCR. Tier 2 capital relates to the Group's £0.22 billion subordinated debt with no 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 no ineligible Tier 3 own funds.

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

At 31 December	2023 £bn	2022 £bn
Total shareholders' equity	**2.06**	1.93
Goodwill and intangible assets	**(0.82)**	(0.82)
Change in valuation of technical provisions	**0.43**	–
Other asset and liability adjustments	**(0.03)**	(0.04)
Foreseeable dividend	**(0.05)**	–
Tier 1 capital – unrestricted	**1.59**	1.07
Tier 1 capital – restricted	**0.32**	0.32
Less reclassified restricted Tier 1 debt[1]	**–**	(0.05)
Eligible Tier 1 capital	**1.91**	1.34
Tier 2 capital – reclassified restricted Tier 1 debt and Tier 2 subordinated debt[1]	**0.22**	0.26
Tier 3 capital – deferred tax	**0.10**	0.21
Ineligible Tier 3 capital[2]	**–**	(0.03)
Total eligible own funds	**2.23**	1.78

Notes:

1. As at 31 December 2023, none (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 31 December 2023, no ineligible Tier 3 capital arose as the Group's available Tier 3 capital was under the amount of Tier 3 capital permitted under the Solvency II regulations (15% of the Group's SCR). At 31 December 2022, ineligible Tier 3 capital arose as the Group's Tier 3 capital was above the amount permitted under the Solvency II regulations.

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 being reviewed 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	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 31 December	**2023 £m**	2022 £m restated[1]
Investment-grade credit[2]	**2,288.1**	2,360.0
High yield	**281.2**	278.8
Investment grade private placements	**70.6**	97.2
Credit	**2,639.9**	2,736.0
Sovereign[2]	**681.2**	510.3
Total debt securities	**3,321.1**	3,246.3
Infrastructure debt	**214.2**	236.8
Commercial real estate loans	**145.9**	198.9
Other loans	**3.1**	1.6
Cash and cash equivalents[3,4]	**1,689.8**	938.4
Investment property	**277.1**	278.5
Equity investments[5]	**19.7**	14.4
Total investment holdings	**5,670.9**	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 1 and 21 for further details.
2. Asset allocation at 31 December 2023 includes investment portfolio derivatives, which have a mark-to-market asset value of £12.4 million which is split as assets of £12.0 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. £241.8 million (2022: £nil) of this balance is invested within money market funds under the 100% quota share reinsurance treaty for the brokered commercial business, which is operated on a funds withheld basis. This entitles the reinsurer to the investment return earned on underlying collateral assets held in money market funds. The Group has appointed a custodian for the asset while retaining ownership of the funds withheld assets collateral.
5. 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 31 December 2023, total investment holdings of £5,670.9 million were 15.4% higher than at the start of the year, reflecting fair value movements in fixed rate debt securities and the net sale proceeds from the disposal of the Group's brokered commercial business. Total debt securities were £3,321.1 million (31 December 2022: £3,246.3 million), of which 2.6% were rated as 'AAA' and a further 61.5% were rated as 'AA' or 'A'. The average duration at 31 December 2023 of total debt securities was 2.1 years (31 December 2022: 2.3 years).

At 31 December 2023, total unrealised losses on investments held at FVTPL were £136.5 million (31 December 2022: £282.1 million unrealised losses).

	Note	FY 2023 £m	FY 2022 £m restated[3]
Investment income		**149.1**	101.9
Investment fees		**(7.3)**	(7.8)
Net investment income in operating profit		**141.8**	94.1
Net investment income - brokered commercial business		**35.2**	20.4
Net investment income - exited partnerships		**1.6**	0.9
Net investment income	5	**178.6**	115.4
Net FV gains/(losses)[4]	5	**124.4**	(342.5)
Total investment income recognised through the statement of profit or loss	5	**303.0**	(227.1)

Net investment income increased to £141.8 million (2022: £94.1 million) primarily driven by yield improvements in variable rate asset classes benefiting from a rising interest rate environment.

Fair value gains were £124.4 million, versus losses in 2022 (£342.5 million), with a tightening of credit spreads and interest rates accounting for the majority of the movement. Fair value adjustments to commercial property valuations resulted in a £1.4 million write-down during 2023.

Net asset value

	Note	2023 £m	2022 £m restated[1]
Net assets[2]	11	**2,058.2**	1,845.3
Goodwill and other intangible assets	11	**(818.6)**	(822.2)
Tangible net assets	11	**1,239.6**	1,023.1
Closing number of Ordinary Shares (millions)	11	**1,297.7**	1,298.2
Net asset value per share (pence)	11	**158.6**	142.1
Tangible net asset value per share (pence)	11	**95.5**	78.8

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.

Net assets at 31 December 2023 increased by £212.9 million to £2,058.2 million (31 December 2022: £1,845.3 million) and tangible net assets increased to £1,239.6 million (31 December 2022: £1,023.1 million).

Leverage

The Group's financial leverage remained steady at 22.7% (2022: 24.7%).

	2023 £m	2022 £m restated[1]
Shareholders' equity	**2,058.2**	1,845.3
Tier 1 notes	**346.5**	346.5
Financial debt – subordinated debt	**258.8**	258.6
Total capital employed	**2,663.5**	2,450.4
Financial leverage ratio[2]	**22.7%**	24.7%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 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 'A2' for insurance financial strength (strong) with a stable outlook.

Reserving

We make provision for the full cost of outstanding claims from the general insurance business at the statement of financial position 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 BEL.

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, with the equivalents being 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 and the Group has booked a probability weighted allowance for a discount rate change within its best estimate of liabilities. 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.

At 31 December 2023, the real discount rate for PPOs is 0.7% (2022: 0.6%, restated for IFRS 17), the combination of cash flow weighted inflation and discounting of 3.9% (2022: 4.2%, restated for IFRS 17), which allows for higher short-term inflation before reverting to a long term trend of 3.5%, and a yield curve based discount rate of 4.6% (2022: 4.8%, restated for IFRS 17).

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. Upwards pressure is likely to remain 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 reserves development at 31 December 2023 were £149.0 million (2022: £97.8 million release), driven by strengthening in Motor, of which £78 million related to the Motor total loss past business review remediation. Looking forward, the opportunity for prior-year reserve releases in the short term remains low given the inflationary backdrop.

Net liability for incurred claims

	31 Dec 2023 Estimate of present value cash flows £m	31 Dec 2023 Risk adjustment £m	**31 Dec 2023 Total £m**	31 Dec 2022 Estimate of present value cash flows £m	31 Dec 2022 Risk adjustment £m	**31 Dec 2022 Total £m**
Motor	1,634.9	79.9	**1,714.8**	1,393.0	72.7	**1,465.7**
Home	352.5	16.1	**368.6**	386.9	19.5	**406.4**
RoPL	65.7	2.4	**68.1**	75.4	3.0	**78.4**
Commercial	129.0	6.2	**135.2**	102.2	6.3	**108.5**
Total ongoing operations[1]	2,182.1	104.6	**2,286.7**	1,957.5	101.5	**2,059.0**
Brokered commercial business	354.7	18.5	**373.2**	415.4	20.8	**436.2**
Run-off partnerships	72.8	2.2	**75.0**	55.1	1.3	**56.4**
Total	2,609.6	125.3	**2,734.9**	2,428.0	123.6	**2,551.6**

Note:

1. Ongoing operations – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 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 and equity gross of reinsurance[1,2]		Increase/(decrease) in profit before tax and equity net of reinsurance[1,2]	
	2023	2022	**2023**	2022
At 31 December	**£m**	£m	**£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	**95.0**	87.1	**39.0**	35.2
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(127.8)**	(113.7)	**(52.1)**	(45.4)
Discount curve - other claims[4]				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**55.9**	39.7	**37.2**	27.1
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(58.6)**	(41.4)	**(38.9)**	(28.2)
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%)	**105.1**	85.7	**48.1**	24.8
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%)	**(220.6)**	(180.4)	**(97.0)**	(48.2)
Claims inflation				
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**112.8**	96.9	**71.7**	64.5
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(114.6)**	(98.3)	**(72.8)**	(65.4)
Risk adjustment[6]				
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	**73.1**	74.1	**36.6**	33.7
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	**(84.5)**	(87.5)	**(42.9)**	(38.6)

Notes:

1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the statement of financial position 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 statement of financial position 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 statement of financial position 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 31 December 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 £30 million or more, taking into account customer, financial and reputational impacts. During 2023 the Group revised its financial materiality threshold down from £40 million to £30 million. This was driven by wanting to bring the materiality closer to that of the audit materiality, along with a desire to consider a wider range of quantitative (such as Solvency) and qualitative factors to ensure the level of materiality does not fluctuate significantly year on year.

Our principal risks are under continuous review and assessment and, with the introductions of the FCA's PPR regulations and Consumer Duty, Conduct Risk is now deemed a principal risk to the Group.

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 compounding supply/demand issues which arose following Covid-19 and Brexit have been key areas of focus for the Group in 2023. 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. However, our reserving processes reflect improved insight in claims experience and inflation trends resulting from extensive work undertaken across the business over the past year. In addition, the Group has begun its pricing and underwriting transformation journey aimed at delivering best market practice in our Motor business. 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. The Group manages its current exposure to weather events through the use of reinsurance and our participation in the Flood Re initiative.
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 impact from the macroeconomic environment. Market risk remains at a heightened but stable level over the term of the Group's Financial Plan (the "**Plan**"). In the United Kingdom inflation has been coming down from the high levels in 2022 and interest rates have reached their peak in Q4 2023. The sustained high interest rates, continued economic uncertainty and low productivity levels are likely to lead to minimal economic growth. Recession in the United Kingdom would be likely to add to market volatility. Concerns about recession risk, escalation of geopolitical tensions and fiscal policy concerns could affect equity and credit markets within the global economy leading to credit spread increases, foreign exchange rate volatility, and interest rate changes. 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.

Principal risks	Risk commentary
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 risks relating to this category include Technology and Infrastructure, Change, Cyber, Supply Chain & Outsourcing and People & Culture. The trend in operational risk is driven by ongoing risk exposure as the Group continues to implement and embed changes in its technology systems, data flows, pricing models, and processes, whilst operating within a volatile external environment. Our approach is to manage our operational risks proactively, to mitigate potential customer harm, regulatory or legal censure, and financial or reputational impacts. The Group is also undertaking various initiatives to reduce its operational risk through the strengthening of the control environment. The Group's exposure to technology risk is materially impacted by the need to enhance digital capabilities, simplify our technology estate and mitigate IT resilience risk. The Group is well placed to respond to new regulations and develops technology with a resilience by design approach. Continuous monitoring and maintenance of the currency and technology estate, along with disaster recovery testing, mitigates the likelihood of system failures. The Group maintains and tests critical end-to-end business and continuity plans in the event of a material system outage. We have continued in the journey to improve change portfolio management and change initiative delivery, with the object of ensuring that change delivery is delivered to achieve the intended outcomes and benefits for customers and shareholders within risk appetite. Notably, we continue plans to modernise our IT infrastructure and technology estate for increased performance and stability, so that our customers can have a better sales and servicing experience through the improved target operating models (people, processes, technology, and data flows). The risks arising from cyber security failures that impact the confidentiality, integrity and availability of our data continue to increase and evolve as threat actors enhance their practices. Our Chief Information Security Officer is responsible for ensuring robust cyber security policies and controls are in place and operate effectively to protect customer and Group data. Headwinds relating to the macroeconomic and operating environment have led to increased risk exposure in respect of third parties and outsourcing arrangements. Initiatives have been established to enhance the Group's third party supplier risk and control environment in response to the increased risk exposure and to ensure risk is managed within Group appetite. Finally, the Group continues to focus on improving organisational culture. Culture remains a core focus and forms part of the Group's 2024 plans of activity and work is progressing to implement required frameworks, capabilities, tools, and governance to deliver against desired cultural outcomes.
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.	The FCA placed two regulatory requirements on Direct Line Group in 2023. In June 2023, the Group was required to carry out a past business review of Motor total loss claims settled between 1 September 2017 and 17 August 2022 to identify policyholders who received unfair settlements and provide them with appropriate redress. In September 2023, the Group was required to carry out a past business review of renewal prices charged since 1 January 2022 to identify any that did not comply with the rules relating to use of tenure and provide policyholders with appropriate redress. The Group is running remediation programmes for affected customers. The introduction of Consumer Duty represents a significant shift in the FCA's expectations of firms and applies to all of the Group's regulated products. A comprehensive implementation plan has been put in place to address the requirements arising from the new Duty, which has been approved by the Board. Finally, the Group is aware of the impact of the rising cost of living on our customers and we are taking measures to help support customers during this period, including the launch of Direct Line Essentials to adapt to changing customer needs.

Principal risks	Risk commentary
Regulatory and compliance risk describes the risk of reputational damage, regulatory or legal censure, fines or prosecutions and other types of losses arising from non-compliance with regulations and legislation.	The outlook for regulatory compliance risk is increasing as financial institutions embed multiple regulatory changes, alongside a challenging external environment referred to 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 ongoing dialogue with our regulators, and we have continued to engage with the regulators and HM Treasury regarding the future regulatory framework within the UK. We remain focused on key areas of regulatory attention, including embedding the FCA's PPR regulations and Consumer Duty, and regulatory requirements under the Green Finance Strategy, climate-related risks and the regulatory capital frameworks, and finance for positive sustainable change. We have also continued our focus upon operational resilience in accordance with the increased regulatory requirements. Finally, we have a governance and accountability framework in place as part of the Senior Managers and Certification Regime, and carry out an annual declaration process to ensure the ongoing fitness and propriety of the Group's Senior Managers and Certified Functions.
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 stable. The Group monitors its key counterparties, namely the security of the issuers within its investment portfolio, and its reinsurance exposures are mainly held with reinsurers with high credit ratings. 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 an A- rating and, for liabilities with a relatively long period of time to settlement, the majority of reinsurance is arranged with reinsurers with a rating of A+ or above and a maximum of 10% of reinsurers rated between A- and 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 potential impacts of: cost of living; persistently high inflation; an increased level of regulatory concern and focus including Consumer Duty, the potential for new and ongoing geopolitical conflicts and climate-related financial risks impacting the Group's strategic position. These factors are driving a high level of uncertainty in the market and subsequent impact on consumer behaviour and engagement models and will continue to challenge the delivery of the Group's Plan, although the Group has put itself in a stronger capital position following the sale of the brokered commercial business. The Group is in a place of transitional leadership, with an outgoing Acting CEO having only recently handed over to the new permanent CEO who joined at the beginning of March 2024. This has impacted the Group's ability to reformulate the longer strategy, which is being offset through preparatory work, progression of no-regret actions, and continuation of our existing strategy.

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and 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 an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks.

Transition to low carbon, including climate change

The Group recognises that transition to a low-carbon economy, including climate change, potentially poses material long-term 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. The Group 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 2023, the Group has continued to embed further controls, targets and reporting around climate change, overseen by its Climate Executive Steering Group. The Group's Risk Taxonomy has also been expanded to include additional reference to climate related risks.

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 2023, the Group has implemented and embedded 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, we are delivering multiple programmes to provide the Group with the capabilities to enable our offerings to compete with new entrants, for example: InsureTech.

Geopolitical tension

Due to heightened global tensions, there is a risk that measures are implemented by governments that decrease political stability, erode countries' relationships and contribute to increasing protectionism. This could lead to multiple impacts including on investment performance and supply chains. The Group conducts ongoing analysis to monitor exposure to the developing geopolitical environment (for example, the Middle East, Russia/Ukraine and 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 has embedded a Data Ethics Framework and Data Ethics principles which are now well established and have been tested via the Data Ethics committee.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Notes	2023 £m	2022 £m restated[1]
Insurance revenue	4	**3,601.7**	3,229.1
Insurance service expenses	4	**(3,806.3)**	(3,145.5)
Allocation of reinsurance premiums paid	4	**(470.2)**	(165.7)
Amounts recoverable from reinsurance contracts held	4	**423.4**	96.4
Insurance service result	4	**(251.4)**	14.3
Total interest income calculated using effective interest rate method	5	**171.8**	109.3
Other interest and similar income	5	**16.1**	15.6
Investment fees	5	**(9.3)**	(9.5)
Net investment income	5	**178.6**	115.4
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	5	**127.0**	(302.8)
Net fair value losses on investment property	5	**(1.9)**	(39.1)
Net credit impairment losses on financial investments	5	**(0.7)**	(0.6)
Investment return	5	**303.0**	(227.1)
Net finance (expenses)/income from insurance contracts issued	5	**(193.8)**	102.4
Net finance income/(expenses) from reinsurance contracts held	5	**28.0**	(101.5)
Investment return and net insurance finance result	5	**137.2**	(226.2)
Other operating income		**21.8**	8.3
Other operating expenses	6	**(59.6)**	(77.8)
Other finance costs	7	**(14.5)**	(20.4)
Gain on disposal of business	8	**443.9**	—
Profit/(loss) before tax		**277.4**	(301.8)
Tax (charge)/credit[2]		**(54.5)**	69.9
Profit/(loss) for the year attributable to the owners of the Company		**222.9**	(231.9)
Earnings/(loss) per share:			
Basic (pence)	10	**15.9**	(19.1)
Diluted (pence)	10	**15.7**	(19.1)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. Tax on gain on disposal of business is included in this figure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 £m	2022 £m restated[1]
Profit/(loss) for the year attributable to the owners of the Company	**222.9**	(231.9)
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement gain/(loss) on defined benefit pension scheme	**0.1**	(9.8)
Fair value gain/(loss) on equity investments measured at FVOCI	**3.3**	(0.6)
Realised loss on equity investments measured at FVOCI	**(0.6)**	—
Tax relating to items that will not be reclassified	**–**	2.5
	2.8	(7.9)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	**(0.2)**	0.3
	(0.2)	0.3
Other comprehensive income/(loss) for the year net of tax	**2.6**	(7.6)
Total comprehensive income/(loss) for the year attributable to the owners of the Company	**225.5**	(239.5)

Note:

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

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	As at 31 December 2023 £m	2022 £m restated[1]	As at 1 January 2022 £m restated[1]
Assets				
Goodwill and other intangible assets		**818.6**	822.2	822.5
Property, plant and equipment		**91.6**	83.7	113.8
Right-of-use assets		**96.1**	73.0	76.1
Investment property		**277.1**	278.5	317.0
Insurance contract assets	15	**5.4**	17.3	—
Reinsurance contract assets	15	**1,346.0**	1,074.9	1,181.7
Deferred tax assets		**56.5**	89.0	29.4
Current tax assets		**82.8**	71.9	14.4
Other receivables		**35.2**	34.5	28.4
Prepayments, accrued income and other assets		**101.5**	104.9	124.2
Derivative financial instruments		**27.4**	31.3	35.9
Retirement benefit asset		**1.3**	1.6	12.1
Financial investments	16	**3,691.6**	3,696.4	4,630.3
Cash and cash equivalents	17	**1,772.2**	1,003.6	955.7
Assets held for sale		**13.9**	40.9	41.2
Total assets		**8,417.2**	7,423.7	8,382.7
Equity				
Shareholders' equity		**2,058.2**	1,845.3	2,450.6
Tier 1 notes		**346.5**	346.5	346.5
Total equity		**2,404.7**	2,191.8	2,797.1
Liabilities				
Subordinated liabilities		**258.8**	258.6	513.6
Insurance contract liabilities	15	**5,238.8**	4,625.8	4,725.6
Reinsurance contract liabilities	15	**116.6**	13.9	3.6
Borrowings	17	**82.4**	65.2	59.2
Derivative financial instruments		**15.4**	29.6	19.5
Provisions		**30.8**	10.2	48.1
Trade and other payables		**163.6**	147.0	131.8
Lease liabilities		**106.1**	81.6	84.2
Total liabilities		**6,012.5**	5,231.9	5,585.6
Total equity and liabilities		**8,417.2**	7,423.7	8,382.7

Note:

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital (note 12)	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	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 IFRS 17	—	—	—	—	—	—	(96.1)	(96.1)	—	(96.1)
First application of IFRS 9	—	—	—	(7.5)	—	—	4.0	(3.5)	—	(3.5)
Balance at 1 January 2022 (restated[1])	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 year (restated[1])	—	—	—	—	(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])	143.1	(39.0)	1,456.9	—	0.9	—	283.4	1,845.3	346.5	2,191.8
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**222.9**	**222.9**	**–**	**222.9**
Other comprehensive income/ (loss)	**–**	**–**	**–**	**–**	**2.7**	**(0.2)**	**0.1**	**2.6**	**–**	**2.6**
Total comprehensive income/ (loss) for the year	**–**	**–**	**–**	**–**	**2.7**	**(0.2)**	**223.0**	**225.5**	**–**	**225.5**
Dividends and appropriations paid (note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**(16.6)**	**(16.6)**	**–**	**(16.6)**
Shares acquired by employee trusts	**–**	**(10.2)**	**–**	**–**	**–**	**–**	**–**	**(10.2)**	**–**	**(10.2)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**13.9**	**13.9**	**–**	**13.9**
Shares distributed by employee trusts	**–**	**19.3**	**–**	**–**	**–**	**–**	**(19.3)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Total transactions with equity holders	**–**	**9.1**	**–**	**–**	**–**	**–**	**(21.7)**	**(12.6)**	**–**	**(12.6)**
Balance at 31 December 2023	**143.1**	**(29.9)**	**1,456.9**	**–**	**3.6**	**(0.2)**	**484.7**	**2,058.2**	**346.5**	**2,404.7**

Note:

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

Consolidated Cash Flow Statement

For the year ended 31 December 2023

	Notes	2023 £m	2022 £m restated1
Net cash generated from operating activities before investment of insurance assets		**100.5**	32.1
Cash generated from investment of insurance assets		**304.4**	768.1
Net cash generated from operating activities		**404.9**	800.2
Cash flows from/(used) in investing activities			
Investment in other intangible assets		**(124.1)**	(108.4)
Purchases of property, plant and equipment		**(18.9)**	(11.7)
Proceeds on disposals of assets held for sale		**21.9**	19.3
Proceeds from disposal of business	8	**520.0**	—
Net cash outflow from acquisition of businesses	19	**(0.6)**	—
Net cash generated from/(used in) investing activities		**398.3**	(100.8)
Cash flows used in financing activities			
Dividends and appropriations paid	9	**(16.6)**	(314.5)
Repayment of subordinated liabilities		**–**	(250.0)
Other finance costs (including lease interest)		**(14.2)**	(23.0)
Principal element of lease payments		**(10.8)**	(8.9)
Purchase of employee trust shares		**(10.2)**	(11.0)
Share buyback	12	**–**	(50.1)
Net cash used in financing activities		**(51.8)**	(657.5)
Net increase in cash and cash equivalents		**751.4**	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		**1,689.8**	938.4

1. Accounting policies

1.1 Basis of preparation

The financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("**IFRS**") as adopted by the UK. The accounting policies applied in this preliminary announcement 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 1 and 21. The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 31 December 2023 or 2022. These accounts were signed on 21 March 2024 and are expected to be published in March 2024 and delivered to the Registrar of Companies following the Annual General Meeting to be held on 8 May 2024. The independent Auditor's report on the Group accounts for the year ended 31 December 2023 was signed on 21 March 2024, is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under S498(2) or (3) of the Companies Act 2006. This audit opinion excludes disclosures surrounding capital adequacy calculated under the Solvency II regime as these are outside of the audit scope.

1.2 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 12 months to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to rebuild balance sheet resilience. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3 to the Group's Annual Report and Accounts. This covers insurance, market, credit, liquidity and operational risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle, which runs until 2027, with the first year following approval of the Strategic Plan ("**the Plan**"), being 2024, having greater certainty and hence used to set detailed budgets. The Group's Risk Function has carried out an assessment of the risks to 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, failure to achieve motor pricing initiative benefits, delay to delivery of expense reductions and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3-6% with the Group and market response delayed by six months.
- Failure to achieve motor pricing initiative benefits: planned benefits from future motor pricing initiatives are not achieved.
- Delay to delivering expense reductions: there is a delay of 12 months in delivering planned expense reductions.
- Fall in asset values: an increase in credit spreads of 75 basis points, with a partial recovery of 25 basis points over 2025.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The Risk Function has also carried out an assessment of the risks to the Group's and Company's capital position over 2024 and 2025. Two specific macroeconomic combination stresses, a moderate and a severe, have been updated to include not only a review of Group financials but also a review of assumptions to reflect the latest internal and external environment and trends. The stresses have been run to assess the possible impact on own funds in the period to 31 December 2024 and 31 December 2025. The stresses are updated and repeated regularly. The macroeconomic assumptions for key parameters such as Consumer Price Index, GDP and Bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible", updated for changes in the macroeconomic environment, including the recession in the United Kingdom.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached.

Additionally, the Risk Function conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of the Company's current business model. The findings showed that over the duration of the planning cycle the scenarios considered did not present a risk to the viability of the business model.

Further information in relation to the sensitivity of key factors on the Group's financial position is included in the Chief Financial Officer Review. This sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note in the 2023 Annual Report and Accounts sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Therefore, having made due enquiries, the Directors believe they can reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2024 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

1. Accounting policies continued

1.3 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 which are material to the Group.

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 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.

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

The Group has adopted IFRS 17 from 1 January 2023, and chose to restate 2022 comparatives. 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 reflected 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.

Under IFRS 17, the Group has taken the option to expense insurance acquisition cash flows when they are incurred. Under IFRS 4, such 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 ("**LFRC**") and liability for incurred claims ("**LIC**"). In measuring LFRC, 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 in the measurement of the LIC. Previously, only PPO reserves were discounted to present value, reflecting the time value of money. Since transition to IFRS 17 all claims reserves are discounted to their 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 consolidated statement of profit or loss.

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, allocation of reinsurance premium paid and amount recoverable from reinsurance contracts held. The presentation provides analysis of the various components related to insurance activities. As a result, the consolidated statement of profit or loss 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 1 (b).
- Significant judgements, and changes in those judgements, and critical estimates when applying the standard are summarised in note 2.
- 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 financial statements (see note 15).

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; and
- 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 asset: on transition, the effect of the above changes created a deferred tax asset of £29.2 million.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

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.

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

The Group has adopted IFRS 9 retrospectively from 1 January 2023 and chose to restate comparatives for 2022.

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 primarily by the recognition of the ECL under IFRS 9 for financial instruments carried at amortised cost, with further details included in note 21.1.

Classification and measurement of financial instruments

The Group's debt instruments of £4,084.6 million that were classified as available-for-sale ("**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 FVOCI. However, the Group has applied the IFRS 9 option to designate debt instruments, backing its insurance contracts as FVTPL, to reduce the accounting mismatch caused by the change in the discount rates on the value of insurance contracts that are reflected in the consolidated statement of 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 held-to-maturity ("**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, except for derivative financial liabilities, which are held at fair value.

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	4,084.6	Fair value through profit or loss	4,084.6
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	Available for sale	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 or loss	35.9	Fair value through profit or 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 or loss	19.5	Fair value through profit or loss	19.5
Trade and other payables	Amortised cost	131.8	Amortised cost	131.8
Subordinated liabilities	Amortised cost	513.6	Amortised cost	513.6

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

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 financial investments and debt securities held at amortised cost. Impairment for the remaining assets is measured using the simplified approach 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.

1.3 (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, and as disclosed in the 2023 Half Year 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 consolidated statement of financial position 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.

1.3 (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 1.4 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

Insurance contracts are aggregated into groups for management purposes. The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. 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, if any;
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, 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 based on the criteria of similar risks which are managed together. The reinsurance contract held portfolios are further divided within a calendar year into three groups that comprise:

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.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

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.

(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 insurance 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 reinsurance contracts (both quota share and Motor excess of loss) include contracts with a coverage period greater than one year. However, there is no material difference in the measurement of the asset for remaining coverage between the PAA and the general model, therefore these qualify for the PAA.

(v) Measurement – Premium Allocation Approach

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 groups of insurance and reinsurance contracts longer than one year, the Group has modelled possible future scenarios to test 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. Where contracts and groups of contracts are deemed to be immaterial additional PAA testing is not performed and accordingly contracts are measured under the PAA measurement model.

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.

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.

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.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

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 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 statement of profit or loss (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 contract held. The Group adjusts the asset for incurred recoveries (on underlying incurred claims) for the effect of changes in the default risk of the reinsurer with the corresponding change being reflected in the insurance service result (amounts recovered from reinsurance contracts held). The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

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 twelve 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 of the contract as an adjustment to the estimate of fulfilment cash flows.

(vi) Presentation

The Group presents separately, in the consolidated statement of financial position, 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 presents separately, in the consolidated statement of financial position, 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 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 allocated to the period. The Group allocates the expected premium receipts and instalment income (being the additional fees payable by a policyholder associated with paying for an insurance contract over 12 months that are considered non-distinct from the underlying insurance policy) to each period of insurance contract services on the basis of the passage of time.

Other income in insurance revenue

Cash flows associated with arrangement fee and administrative fee income are included within the insurance revenue cash flows as they are considered non-distinct from the underlying insurance policy. Arrangement services are provided at a point in time as the benefits from obtaining the insurance policy occur at a specific time. The customer benefits from administration services throughout the policy period; as the Group performs its obligation on an as-needed basis, the allocated element of administration services is spread evenly over the term of the policy.

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 statement of profit or loss.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

Vehicle replacement referral fees, salvage income and legal services fees are rolled up and offset against the claim cost at the Group level.

Insurance finance income and expense

Insurance finance income and 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

Net income or expense from reinsurance contracts held

The Group presents separately on the face of the consolidated statement of profit or loss 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.

Presentation of reinsurance contract with ‘funds withheld’ arrangement

The Group has quota share reinsurance contracts that have funds withheld features, whereby the quota share proportion of reinsurance premiums and related recoveries are retained by the Group and will be settled on a net basis at commutation.

Under this arrangement, no assets are transferred to the reinsurer at the inception of the contract. Instead, the asset is deposited within a segregated funds withheld account that is maintained by the Group with a third-party custodian. Cash withheld under funds withheld arrangements are presented in cash and cash equivalents within the statement of financial position.

The funds withheld account balance is adjusted at the agreed commutation date, with any shortfall or surplus resulting from reinsurance premium compared to reinsurance recoveries necessitating an adjustment to funds withheld. The funds withheld account is measured by reference to the fulfilment cash flows (of the reinsurance contract held) that, according to the contractual terms, give rise to the funds withheld feature. Until it is settled in cash, the funds withheld liability is included within reinsurance contract assets or liabilities.

Whilst the funds withheld arrangement operates on a net settlement basis, the Group’s policy is to present the reinsurance results on a gross basis in the consolidated statement of profit or loss, as outlined above.

(b) IFRS 9 – Significant accounting policies

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, financial assets are measured at fair value net of transaction costs. Subsequently they are 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.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

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 statement of financial position at their fair value, inclusive of transaction costs.

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

If the Group assesses the need to recognise a loss allowance on a financial asset carried at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income; however, the recognition of a loss allowance does not impact the carrying value of the asset on the statement of financial position. Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the statement of profit or loss.

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 debt securities, backing its insurance contracts as FVTPL to reduce the accounting mismatch caused by fluctuations in values of underlying insurance contracts due to changes in discount rates.

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 statement of financial position date.

Financial assets measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the statement of profit or loss within the investment return 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 statement of financial position at their fair value. Fair value gains and losses are recognised in the statement of profit or loss 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 ECL model is used to calculate impairment to be recognised for all financial assets measured at amortised cost and FVOCI. The general approach, which utilises the three-stage model, is used for financial investment and debt securities, whilst impairment for the remaining assets is measured using the simplified approach.

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.

The ECL three-stage model is based on forward looking information regarding changes in credit quality since inception.

The three stages of ECL are defined and assessed as follows:

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.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECL impairment charges are recognised in the statement of profit or loss within the investment return.

The credit risk note, in the 2023 Annual Report and Accounts, when published will explain how the Group assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

Derivatives and hedging

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into, and subsequently remeasured to their fair value at the end of each reporting period. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the statement of profit or loss unless the derivative is the hedging instrument in a qualifying hedge.

1. Accounting policies continued

1.3 Adoption of new and revised standards continued

The Group enters into a small number of immaterial cash flow hedges and applies the hedge accounting requirements of IFRS 9. Hedge accounting relationships are formally documented at inception. The documentation includes the Group's risk management objective and strategy for undertaking the hedge, identifies the hedged item and the hedging instrument, the nature of the risk that is being hedged, and the way in which the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including identifying potential sources of hedge ineffectiveness).

In a cash flow hedge, the effective portion of the gain or loss on the economic hedging instrument is recognised in other comprehensive income. Any ineffective portion is recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to receive the cash flows from that asset have expired or when the Group has transferred its rights to receive cash flows from the asset and either the Group has transferred substantially all the risks and rewards of ownership of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of ownership and the Group has not retained control.

1.3 (e) Other accounting standards and amendments adopted during 2023

The Group has adopted the following new amendments to IFRSs and IASs that became mandatorily effective for the Group for the first time during 2023. None of these changes have a material impact on the Group.

In February 2021 the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' which introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

Also, in February 2021 the IASB issued 'Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)' to help entities to provide accounting policy disclosures that are more useful by:

- replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
- adding guidance on how entities apply the concept of 'materiality' in making decisions about accounting policy disclosures.

In May 2021 the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a single Transaction (Amendments to IAS 12)' which narrows the scope of the initial recognition exception under IAS 12 'Income Taxes' so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify where payments that settle a liability are deductible for tax purposes.

In May 2023 the IASB issued amendments to IAS 12 'Income Taxes' which gives companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform.

1.4 Accounting developments

Amendments to IAS 12 – Income Taxes: 'International Tax Reform — Pillar Two Model Rules

During the year the UK Government enacted legislation to apply a global minimum tax rate of 15% to multinational businesses headquartered in the UK, as well as a new domestic UK minimum tax rate of 15%, in line with the Model Rules agreed by the Organisation for Economic Co-operation and Development ("**OECD**"). These rules will be effective for the Group's financial year beginning 1 January 2024. The Group has performed an assessment of its potential exposure to Pillar Two income taxes based upon the most recent information available regarding the financial performance of its constituent entities. Based on that assessment, the Pillar Two effective tax rate in the UK is expected to be above 15% and management is not currently aware of any circumstances under which this might change. Operations in other jurisdictions are de minimis. Therefore, the Group does not expect a potential exposure to Pillar Two top up taxes.

Other accounting developments

New IFRS standards and amendments that are issued, adopted by the UK, but are not effective until 1 January 2024 reporting period and have not been early adopted by the Group are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

In January 2020, the IASB issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' which clarifies the requirements for classifying liabilities as current or non-current. More specifically these amendments:

- specify that an entity's right to defer settlement must exist at the end of the reporting period;
- clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement of a liability;
- clarify how lending conditions affect classification; and
- clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

On 22 September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)', which adds subsequent measurement requirements for sale and leaseback transactions.

On 25 May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

1. Accounting policies continued

1.4 Accounting developments continued

The following amendments are effective from 1 January 2025 but have not yet adopted by the UK.

The IASB issued amendments 'Lack of Exchangeability (Amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates') that provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

2. 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.

In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important and material to the portrayal of its financial condition are discussed below.

2.1 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 general principles for defining the portfolio of insurance contracts for level of aggregation are equally applicable to reinsurance contracts held.

The Group manages insurance contracts issued by product. Contracts within each product are 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 take the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The Group aggregates portfolios of reinsurance contracts held issued by product which is consistent with how the reinsurance contract held portfolio is assessed and managed together operationally at product level.

PAA eligibility

Accounting judgement

IFRS 17 states that entities may adopt the PAA measurement model if at the inception of the group of contracts, the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage (**LFRC**) for the group that would not differ materially from the one that would be produced, or if the coverage period of each contract in the group is one year or less. All insurance contracts issued by the Group, including the Motability contract that incepted in September 2023, are assessed for eligibility with the PAA measurement model on initial recognition, using the Group's PAA eligibility framework. Where insurance and reinsurance contracts do not automatically qualify for measurement using the PAA, the Group exercises accounting judgement in determining whether the LFRC produced under PAA measurement are sufficiently close to those produced under General Measurement Model (**GMM**) conditions so as to meet the requirements of the accounting standard for measurement using the simplified approach. Materiality is a key consideration in the quantitative assessment of results, and qualitative factors about the nature of the contracts including the timing and size of cash flows are considered when forming conclusions on PAA applicability.

Estimates of future cash flows

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.

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. More recent accident periods tend to be less developed with generally larger reserves than older contract periods, so that a higher proportion of the overall risk adjustment is allocated to these more uncertain groups of contracts. 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.

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

2.1 IFRS 17: Insurance and reinsurance contracts 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. Group diversification benefit is not considered at the individual insurance undertaking entity level but is considered in determining the confidence level at a consolidated level for disclosure purposes.

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	6.1 %	5.1 %	4.8 %
Non-PPOs	4.9 %	3.9 %	3.6 %

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

Onerous contracts

Source of estimation uncertainty

In utilising the PAA measurement model approach, the Group assumes that no material contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. 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 contract held, 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.

General insurance: Liability for Incurred Claims and amounts recoverable from reinsurance contracts held

Accounting judgement

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 BEL.

Source of estimation uncertainty

The Group makes provision for the full cost of outstanding claims from its general insurance business at the statement of financial position date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2023 amounted to £2,734.9 million (2022: £2,551.6 million).

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection. Key sources of estimation uncertainty include those arising from the selection of specific methods as well as assumptions for claims frequency and severity through the review of historical claims and emerging trends. The Group seeks to adopt a conservative approach to assessing claims liabilities.

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

2.1 IFRS 17: Insurance and reinsurance contracts continued

The corresponding amount recoverable from reinsurance contracts held is calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.5 in the Group's annual report and accounts. A credit exposure exists with respect to reinsurance contracts held, to the extent that any reinsurer is unable to meet its obligations.

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, with the equivalents being minus 0.75% in Scotland, and minus 1.5% in Northern Ireland.

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again in 2024 and the Group has booked a probability weighted allowance for a discount rate change within its best estimate liabilities. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2023.The impact of a potential change in the Ogden discount rate is shown in the Reserving section of the Chief Financial Officer Review.

If the claimant prefers, large bodily injury claims can be settled using a Periodic Payment Order ("**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.

At 31 December 2023, the real discount rate for PPOs is 0.7% (2022: 0.6%, restated for IFRS 17), the combination of cash flow weighted inflation and discounting of 3.9% (2022: 4.2%, restated for IFRS 17), which allows for higher short-term inflation before reverting to a long term trend of 3.5%, and a yield curve based discount rate of 4.6% (2022: 4.8%, restated for IFRS 17).

The table in note 15.6 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2023 and 31 December 2022 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in the Reserving section of the Chief Financial Officer Review.

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, the consumer prices inflation was at its highest level for the past decade and is not expected to normalise until 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 have been considered in the reserving process. The Group has observed a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty and the Group has booked an additional provision to protect against the risk of less recoveries than estimated within the actuarial best estimate. There is also uncertainty regarding the remediation cost for Motor total loss claims on past business and following a detailed review, the Group has strengthened its provision for this risk at the year end.

Motor accidental damage recovery reserves, which form part of the wider motor accidental damage reserves, are subject to estimation uncertainty, and as such are subject to regular review and assessment. To support the accurate estimation of such recoveries, the Claims Function performs regular assessment of recovery trends, including assessment by counterparty and year of loss, as well as executing period audits on a sample basis of recoveries. In addition, the Reserving function perform periodic 'deep dive' reviews of recoverable amounts to ensure the ongoing adequacy of the reserve.

Changes in the climate can impact both frequency and severity of losses, particularly for windstorm and flood events. This is taken into account in the planning process, pricing and through our capital model; the impact on reserves is only seen when major loss events occur.

Changes in claims frequency present greater uncertainty when calculating the LFRC, whereas uncertainty over the level of claims severity has a greater impact on both the LFRC and LIC reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims as well as input costs and replacement costs for damage claims. The sensitivity analysis in the Reserving section of the Chief Financial Officer Review looks at a 200 basis point change in the claims inflation assumed in the actuarial best estimate over the next two years, which continues to remain relevant and is within the Group's booked reserves. The risk of material adjustments to the Group's estimates which could affect the carrying value in 2023 is highest in relation to long tail classes where inflation has been less evident to date. The Group therefore reserves for the risk of excess inflation on these classes within its ENID position.

The Group provides a best estimate for remediation cost, including the operational costs of performing such reviews, relating to Motor total loss claims settled between 1 September 2017 and 17 August 2022, and the pricing of Motor and Home policies following the implementation of the FCA's PPR reform from 1 January 2022. Management exercise judgement in assessing which customers should be remediated and apply estimation techniques in deriving the remediation amounts. The value of the past business review provisions at 31 December 2023 totals £130.2 million (2022: £45.9 million).

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

2.2. 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.

2.3 Fair value of investment properties

Sources of estimation uncertainty

The Group holds a portfolio of investment properties, with a fair value at 31 December 2023 of £277.1 million (2022: £278.5 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy.

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Group's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations. There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

2.4 Impairment provisions – financial assets

Accounting judgement

The measurement of the ECL allowance under IFRS 9 for financial assets measured at amortised cost and FVOCI requires significant judgements and assumption in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios, and the relevant inputs used.

The Group has a portfolio of financial investments measured at amortised cost, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2023: £363.2 million; 31 December 2022: £437.3 million). During the year the effect of changes in assessing the ECL relating to the financial investments amounted to £0.9 million (2022: £0.9 million).

The Group has a small portfolio of debt securities measured at amortised cost (31 December 2023: £70.6 million; 31 December 2022: £97.2 million). During the year the effect of changes in assessing the ECL on these securities amounted to £0.2 million (2022: £0.2million).

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 as at 31 December 2022.

3. Segmental analysis

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2023.

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	Brokered commercial business	Run-off partnerships[1]	Restructuring and one-off costs	**Total Group**
	£m	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Insurance revenue	1,805.4	539.7	272.9	234.9	**2,852.9**	600.8	148.0	—	**3,601.7**
Insurance service expenses	(2,145.2)	(477.4)	(229.5)	(187.4)	**(3,039.5)**	(564.3)	(177.7)	(24.8)	**(3,806.3)**
Allocation of reinsurance premiums paid	(240.5)	(36.1)	(3.7)	(25.1)	**(305.4)**	(163.4)	(1.4)	—	**(470.2)**
Amounts recoverable from reinsurers	248.7	24.0	2.3	5.2	**280.2**	140.8	2.4	—	**423.4**
Insurance service result	**(331.6)**	**50.2**	**42.0**	**27.6**	**(211.8)**	**13.9**	**(28.7)**	**(24.8)**	**(251.4)**
Investment return	179.3	39.2	10.7	11.8	**241.0**	59.0	3.0	—	**303.0**
Net finance expenses from insurance contracts issued	(146.2)	(15.9)	(1.5)	(6.8)	**(170.4)**	(21.9)	(1.5)	—	**(193.8)**
Net finance income from reinsurance contracts held	25.5	0.9	0.1	1.0	**27.5**	0.4	0.1	—	**28.0**
Investment return and net insurance finance result	**58.6**	**24.2**	**9.3**	**6.0**	**98.1**	**37.5**	**1.6**	**–**	**137.2**
Other operating income	4.2	0.4	15.3	1.5	**21.4**	0.4	—	—	**21.8**
Other operating expenses	(5.6)	(3.1)	(12.8)	(0.7)	**(22.2)**	(1.8)	(0.9)	(34.7)	**(59.6)**
(Loss)/earnings before other finance costs	**(274.4)**	**71.7**	**53.8**	**34.4**	**(114.5)**	**50.0**	**(28.0)**	**(59.5)**	**(152.0)**
Gain on disposal									**443.9**
Other finance costs									**(14.5)**
Profit before tax									**277.4**

The table below analyses the Group's assets and liabilities by reportable segment for the year ended 31 December 2023[3].

	Motor	Home	RoPL[1,2]	Commercial	Total Group - ongoing operations[1]	Brokered commercial business	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	£m	**£m**
Goodwill	134.0	45.8	28.7	—	**208.5**	—	—	**208.5**
Assets held for sale	8.7	1.6	0.4	0.7	**11.4**	2.3	0.2	**13.9**
Other segment assets	4,356.6	783.1	230.6	324.9	**5,695.2**	1,059.6	88.6	**6,843.4**
Reinsurance contract assets	1,076.4	36.6	3.6	23.0	**1,139.6**	203.6	2.8	**1,346.0**
Insurance contract assets	—	—	—	—	**–**	—	5.4	**5.4**
Reinsurance contract liabilities	(16.9)	(4.7)	(1.5)	(3.4)	**(26.5)**	(89.6)	(0.5)	**(116.6)**
Insurance contract liabilities	(3,305.9)	(583.1)	(155.9)	(250.1)	**(4,295.0)**	(866.0)	(77.8)	**(5,238.8)**
Other segment liabilities	(415.1)	(73.2)	(19.6)	(31.4)	**(539.3)**	(108.7)	(9.1)	**(657.1)**
Segment net assets	**1,837.8**	**206.1**	**86.3**	**63.7**	**2,193.9**	**201.2**	**9.6**	**2,404.7**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
2. See glossary on page 79 or definitions. The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.
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.

3. 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]).

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	Brokered commercial business	Run-off partnerships[1]	Restructuring and one-off costs	**Total Group**
	£m	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Insurance revenue	1,555.3	560.7	282.1	211.8	**2,609.9**	496.4	122.8	—	**3,229.1**
Insurance service expenses	(1,636.2)	(540.8)	(223.4)	(192.9)	**(2,593.3)**	(419.5)	(132.7)	—	**(3,145.5)**
Allocation of reinsurance premiums paid	(77.2)	(26.5)	(2.3)	(22.1)	**(128.1)**	(36.9)	(0.7)	—	**(165.7)**
Amounts recoverable from/ (payable to) reinsurers	87.4	3.1	(0.7)	(1.8)	**88.0**	8.4	—	—	**96.4**
Insurance service result	**(70.7)**	**(3.5)**	**55.7**	**(5.0)**	**(23.5)**	**48.4**	**(10.6)**	**–**	**14.3**
Investment return	(140.3)	(29.8)	(7.1)	(8.1)	**(185.3)**	(39.6)	(2.2)	—	**(227.1)**
Net finance expenses from insurance contracts issued	81.8	5.0	1.2	3.4	**91.4**	11.1	(0.1)	—	**102.4**
Net finance income from reinsurance contracts held	(94.8)	(0.4)	—	(1.2)	**(96.4)**	(5.1)	—	—	**(101.5)**
Investment return and net insurance finance result	**(153.3)**	**(25.2)**	**(5.9)**	**(5.9)**	**(190.3)**	**(33.6)**	**(2.3)**	**–**	**(226.2)**
Other operating income	(6.4)	0.5	11.4	1.6	**7.1**	1.2	—	—	**8.3**
Other operating expenses	(21.9)	(2.5)	(8.5)	(0.8)	**(33.7)**	1.9	(0.7)	(45.3)	**(77.8)**
(Loss)/earnings before other finance costs	**(252.3)**	**(30.7)**	**52.7**	**(10.1)**	**(240.4)**	**17.9**	**(13.6)**	**(45.3)**	**(281.4)**
Other finance costs									**(20.4)**
Loss before tax									**(301.8)**

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

	Motor	Home	RoPL[2,3]	Commercial	**Total Group - ongoing operations[2]**	Brokered commercial business	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	£m	**£m**
Goodwill	130.4	45.8	28.7	—	**204.9**	10.1	—	**215.0**
Assets held for sale	25.4	5.0	1.5	1.9	**33.8**	6.8	0.3	**40.9**
Other segment assets	3,818.4	736.1	246.1	287.2	**5,087.8**	939.3	48.5	**6,075.6**
Reinsurance contract assets	956.1	19.1	1.4	20.0	**996.6**	78.0	0.3	**1,074.9**
Insurance contract assets	—	—	—	—	**–**	—	17.3	**17.3**
Reinsurance contract liabilities	—	(5.2)	(1.2)	(2.6)	**(9.0)**	(4.5)	(0.4)	**(13.9)**
Insurance contract liabilities	(2,860.2)	(567.0)	(171.5)	(214.9)	**(3,813.6)**	(755.5)	(56.7)	**(4,625.8)**
Other segment liabilities	(367.5)	(72.9)	(22.0)	(27.6)	**(490.0)**	(97.1)	(5.1)	**(592.2)**
Segment net assets	**1,702.6**	**160.9**	**83.0**	**64.0**	**2,010.5**	**177.1**	**4.2**	**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 1 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
3. See glossary on page 79 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. Insurance service result

	2023 £m	2022 £m restated[1]
Insurance revenue	**3,601.7**	3,229.1
Insurance service expenses[2]		
Incurred claims and other claims expenses	**(2,860.3)**	(2,435.3)
Past service – incurred claims	**(80.9)**	118.0
Other directly attributable expenses	**(907.9)**	(871.0)
Other directly attributable claims income	**42.8**	42.8
Total insurance service expenses	**(3,806.3)**	(3,145.5)
Expenses from reinsurance contracts held		
Reinsurance premium paid	**(613.0)**	(141.6)
Movement in asset for remaining coverage	**142.8**	(24.1)
Allocation of reinsurance premiums paid	**(470.2)**	(165.7)
Insurance claims recoverable from reinsurance contracts held		
Claims recovered	**495.7**	92.2
Past service – claim recoveries	**(63.1)**	12.6
Other directly attributable expenses	**(3.4)**	—
Effect of non-performance risk of reinsurers	**(5.8)**	(8.4)
Total amounts recoverable from reinsurance contracts held	**423.4**	96.4
Total insurance service result	**(251.4)**	14.3

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. This includes vehicle replacement referral fees, salvage income and legal services fees which have been assessed as part of the IFRS 17 contract boundary.

5. Investment return and net insurance financial result

	2023 £m	2022 £m restated[1]
Amounts recognised in profit or loss		
Interest income calculated using effective interest rate method:		
Debt securities	**78.9**	78.7
Cash and cash equivalents	**65.2**	13.9
Infrastructure debt	**14.8**	7.9
Commercial real estate loans	**12.9**	8.8
Total interest income calculated using effective interest rate method	**171.8**	109.3
Rental income from investment property	**16.1**	15.6
Other interest and similar income	**16.1**	15.6
Investment income	**187.9**	124.9
Investment fees	**(9.3)**	(9.5)
Net investment income	**178.6**	115.4
Net fair value gains/(losses) on financial assets held at fair value through profit or loss:		
Debt securities	**134.1**	(370.7)
Derivatives	**(6.4)**	69.5
Equity investments	**(0.7)**	(1.6)
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	**127.0**	(302.8)
Net fair value losses on investment property	**(1.9)**	(39.1)
Net credit impairment losses on financial investments	**(0.7)**	(0.6)
Investment return	**303.0**	(227.1)
Insurance finance (expense)/income from insurance contracts issued:		
Interest accreted to insurance contracts using current financial assumptions	**(193.8)**	102.4
Reinsurance finance income/(expense) from reinsurance contracts issued:		
Interest accreted to reinsurance contracts using current financial assumptions	**28.0**	(101.5)
Insurance and reinsurance finance (expenses)/income	**(165.8)**	0.9
Total net investment return, insurance and reinsurance finance income/(expenses)	**137.2**	(226.2)
Amounts recognised in other comprehensive income		
Net fair value gains/(losses) on equity investments measured at fair value through other comprehensive income	**2.7**	(0.6)

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

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

	2023 £m	2022 £m restated[1]
(Losses)/gains on hedging instruments:		
Foreign exchange forward contracts[2]	**43.0**	(184.1)
Associated foreign exchange risk	**(48.5)**	184.7
Net (losses)/gains on foreign exchange contracts	**(5.5)**	0.6
Interest rate swaps:		
(Losses)/gains on interest rate swaps[2]	**(0.9)**	68.9
Total (losses)/gains on hedging instruments	**(6.4)**	69.5

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. Foreign exchange forward contracts and interest rate swaps are measured at fair value through the statement of profit or loss, other than a small number of immaterial cash flow hedges.

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.

6. Other operating expenses

	2023 £m	2022 £m restated[1]
Non-directly attributable IT and other operating expenses	**33.4**	42.2
Non-directly attributable staff expenses	**15.7**	10.5
Impairment of intangible and fixed assets	**10.5**	25.1
Total other operating expenses	**59.6**	77.8

Note:

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

The table below analyses the number of people employed by the Group's operations.

	At 31 December		Average for the year	
	2023	2022	**2023**	2022
Insurance operations	**7,015**	6,523	**6,743**	6,828
Repair centre operations	**1,715**	1,508	**1,620**	1,433
Support	**1,401**	1,356	**1,321**	1,407
Total	**10,131**	9,387	**9,684**	9,668

The aggregate remuneration of those employed by the Group's operations comprised:

	2023 £m	2022 £m
Wages and salaries	**421.4**	391.6
Social security costs	**47.7**	43.9
Pension costs	**28.7**	26.5
Share-based payments	**13.9**	8.2
Total	**511.7**	470.2

7. Other finance costs

	2023 £m	2022 £m restated[1]
Interest expense on subordinated liabilities	**10.5**	17.8
Net interest received on interest rate swap	**–**	(2.2)
Unrealised losses on interest rate swap	**–**	2.4
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**0.2**	(0.8)
Interest expense on lease liabilities	**3.8**	3.1
Other interest expense	**0.1**	0.1
Total	**14.5**	20.4

Note:

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

8. Gain on disposal of business

On 6 September 2023, the Group announced that it had entered into an agreement with Royal & Sun Alliance Insurance Limited ("**RSA**"), a wholly-owned subsidiary of Intact Financial Corporation, to dispose of its brokered commercial business. The disposal was structured through several agreements, including:

- A business transfer agreement, which related to the transfer of the new business franchise and certain operations, brands, employees, contractors, data, third party contracts and premises, with the operational transfer targeted to occur in Q2 2024. Certain aspects of the overall business transfer are expected to take place following the initial operational transfer, whereupon RSA will start to write relevant business. On completion of the transaction on 26 October 2023 when the cash consideration was received, the Group lost control of the net assets in relation to the brokered commercial business and as a result, these net assets have been de-recognised in the consolidated statement of financial position and the gain on disposal recognised in the consolidated statement of profit or loss.
- A quota share arrangement relating to the reinsurance of new and certain existing brokered commercial business with effect from 1 October 2023, the risk transfer date, which transferred the economics of the business from this date. The arrangement included business written but not yet earned prior to the risk transfer date and new policies from the risk transfer date until the date of operational transfer. If approved by the Court, and in due course, a subsequent insurance business transfer scheme to transfer these policies to RSA will take place under Part VII of the Financial Services and Markets Act 2000.
- Certain administration and transitional services arrangements to be entered into in connection with operational transfer, including the servicing of policies during the transition.

The Group has retained the back book in relation to business written and earned before 1 October 2023.

On 19 October 2023, the Group's shareholders approved the sale transaction. The cash consideration of £520 million was received on 26 October 2023,

There is potential for further consideration of up to £30 million contingent upon certain earn-out provisions relating to the financial performance of the business. At 31 December 2023, the fair value of the contingent consideration was determined to be nil due to inherent uncertainty at this point on how the disposed business will perform until the conclusion of the earn out period.

A pre-tax gain on disposal of £443.9 million, net of transaction costs, has been recognised in the consolidated statement of profit or loss.

The operations of the brokered commercial business have not been classified as discontinued operations since they do not represent a separate major line of business or geographical operations.

The proceeds from the transaction will be used to enhance the capital strength of the Group and for general corporate purposes.

	2023 £m
Cash consideration	**520.0**
Less: Net assets disposed of	**(6.3)**
Transaction cost	**(50.3)**
Assets written-off and impaired as part of disposal	**(19.5)**
Gain on disposal – pre-tax impact	**443.9**

The table below summarises the statement of financial position of brokered commercial business as at date of disposal:

	2023 £m
Assets	
Goodwill and other intangible assets	**6.9**
Property, plant & equipment	**0.5**
Right of use assets	**0.6**
Prepayments, accrued income and other assets	**0.2**
Total assets	**8.2**
Liabilities	
Trade and other payables	**(0.1)**
Provisions	**(0.8)**
Lease liabilities	**(1.0)**
Total liabilities	**(1.9)**
Net assets disposed of	**6.3**

9. Dividends and appropriations

	2023 £m	2022 £m
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
	–	297.9
Coupon payments in respect of Tier 1 notes[1]	**16.6**	16.6
	16.6	314.5
Proposed dividends:		
2023 final dividend of 4 pence per share	**52.5**	–

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 proposed final dividend for 2023 has not been included as a liability in these financial statements.

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 year ended 31 December 2022 by £2.0 million. No dividends were paid or proposed during the year ended 31 December 2023.

10. Earnings/(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. All awards are to be satisfied using market-purchased shares.

	2023 £m	2022 £m restated[1]
Earnings/(loss) attributable to the owners of the Company	**222.9**	(231.9)
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit/(loss) for the calculation of earnings per share	**206.3**	(248.5)
Weighted average number of Ordinary Shares in issue for the purpose of basic earnings per share (millions)	**1,299.0**	1,304.3
Effect of dilutive potential of share options and contingently issuable shares (millions)[2]	**17.3**	—
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,316.3**	1,304.3
Basic earnings/(loss) per share (pence)	**15.9**	(19.1)
Diluted earnings/(loss) per share (pence)	**15.7**	(19.1)

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. As at 31 December 2022, 15.0 million share options and contingently issuable shares are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

During 2022 the Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million.

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.

11. 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:

	2023 £m	2022 £m restated[1]
Net assets	**2,058.2**	1,845.3
Goodwill and other intangible assets[2]	**(818.6)**	(822.2)
Tangible net assets	**1,239.6**	1,023.1
Number of Ordinary Shares (millions)	**1,311.4**	1,311.4
Shares held by employee trusts (millions)	**(13.7)**	(13.2)
Closing number of Ordinary Shares (millions)	**1,297.7**	1,298.2
Net asset value per share (pence)	**158.6**	142.1
Tangible net asset value per share (pence)	**95.5**	78.8

Notes:

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

	2023 £m	2022 £m restated[1]
Earnings/(losses) attributable to the owners of the Company	**222.9**	(231.9)
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Profit/(loss) for the calculation of return on equity	**206.3**	(248.5)
Opening shareholders' equity	**1,845.3**	2,450.6
Closing shareholders' equity	**2,058.2**	1,845.3
Average shareholders' equity	**1,951.8**	2,148.0
Return on equity	**10.6%**	(11.6%)

Note:

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

12. Share capital

Issued and fully paid: equity shares	2023			2022		
	Number of shares	**Share capital**	**Transfer to capital redemption reserve[3]**	Number of shares	Share capital	Transfer to capital redemption reserve[3]
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]	–	–	–	(19.3)	(2.1)	2.1
At 31 December	**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. During 2022, the Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million.
3. Shares bought back 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.

Employee trust shares

The Group satisfies share-based payments under the Group's share plans primarily through shares purchased in the market and held by employee share trusts.

At 31 December 2023, 13,688,971 Ordinary Shares (2022: 13,214,811 Ordinary Shares) were owned by the employee share trusts at a cost of £29.9 million (2022: £39.0 million). These Ordinary Shares are carried at cost and at 31 December 2023 had a market value of £24.9 million (2022: £29.2 million).

13. Tier 1 notes

	2023	2022
	£m	£m
Tier 1 notes	**346.5**	346.5

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

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

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

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

Note:

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

14. Subordinated liabilities

	2023	2022
	£m	£m
Subordinated Tier 2 notes	**258.8**	258.6

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

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

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

15. Insurance contract assets and liabilities - gross and reinsurance

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

15.1 Insurance and reinsurance contract assets and liabilities by Segment

	Motor	Home	RoPL[1]	Commercial	**Total Group - ongoing operations[1]**	Brokered commercial business and run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
2023							
Insurance contract assets	—	—	—	—	**–**	5.4	**5.4**
Insurance contract liabilities	(3,305.9)	(583.1)	(155.9)	(250.1)	**(4,295.0)**	(943.8)	**(5,238.8)**
Net insurance contract liabilities	**(3,305.9)**	**(583.1)**	**(155.9)**	**(250.1)**	**(4,295.0)**	**(938.4)**	**(5,233.4)**
Reinsurance contract assets	1,076.4	36.6	3.6	23.0	**1,139.6**	206.4	**1,346.0**
Reinsurance contract liabilities	(16.9)	(4.7)	(1.5)	(3.4)	**(26.5)**	(90.1)	**(116.6)**
Net reinsurance contract assets	**1,059.5**	**31.9**	**2.1**	**19.6**	**1,113.1**	**116.3**	**1,229.4**
2022							
Insurance contract assets	—	—	—	—	**–**	17.3	**17.3**
Insurance contract liabilities	(2,860.2)	(567.0)	(171.5)	(214.9)	**(3,813.6)**	(812.2)	**(4,625.8)**
Net insurance contract liabilities	**(2,860.2)**	**(567.0)**	**(171.5)**	**(214.9)**	**(3,813.6)**	**(794.9)**	**(4,608.5)**
Reinsurance contract assets	956.1	19.1	1.4	20.0	**996.6**	78.3	**1,074.9**
Reinsurance contract liabilities	—	(5.2)	(1.2)	(2.6)	**(9.0)**	(4.9)	**(13.9)**
Net reinsurance contract assets	**956.1**	**13.9**	**0.2**	**17.4**	**987.6**	**73.4**	**1,061.0**

	Motor	Home	RoPL[1]	Commercial	**Total Group - ongoing operations[1]**	Brokered commercial business and run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
2023							
Insurance contracts assets/(liabilities)							
Remaining coverage	**(514.7)**	**(177.9)**	**(84.2)**	**(91.9)**	**(868.7)**	**(283.8)**	**(1,152.5)**
Excluding loss component	(514.7)	(177.9)	(84.2)	(91.9)	**(868.7)**	(283.8)	**(1,152.5)**
Loss component	—	—	—	—	**–**	—	**–**
Incurred claims	**(2,791.2)**	**(405.2)**	**(71.7)**	**(158.2)**	**(3,426.3)**	**(654.6)**	**(4,080.9)**
Estimate of present value cash flows	(2,647.6)	(385.3)	(68.8)	(150.0)	**(3,251.7)**	(622.3)	**(3,874.0)**
Risk adjustment	(143.6)	(19.9)	(2.9)	(8.2)	**(174.6)**	(32.3)	**(206.9)**
Total insurance contracts assets/ (liabilities)	**(3,305.9)**	**(583.1)**	**(155.9)**	**(250.1)**	**(4,295.0)**	**(938.4)**	**(5,233.4)**
2022							
Insurance contracts assets/(liabilities)							
Remaining coverage	**(451.7)**	**(141.5)**	**(91.7)**	**(86.4)**	**(771.3)**	**(224.0)**	**(995.3)**
Excluding loss component	(451.7)	(141.5)	(91.7)	(86.4)	**(771.3)**	(224.0)	**(995.3)**
Loss component	—	—	—	—	**–**	—	**–**
Incurred claims	**(2,408.5)**	**(425.5)**	**(79.8)**	**(128.5)**	**(3,042.3)**	**(570.9)**	**(3,613.2)**
Estimate of present value cash flows	(2,259.6)	(400.4)	(76.0)	(119.4)	**(2,855.4)**	(538.9)	**(3,394.3)**
Risk adjustment	(148.9)	(25.1)	(3.8)	(9.1)	**(186.9)**	(32.0)	**(218.9)**
Total insurance contracts assets/ (liabilities)	**(2,860.2)**	**(567.0)**	**(171.5)**	**(214.9)**	**(3,813.6)**	**(794.9)**	**(4,608.5)**

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

	Motor	Home	RoPL[1]	Commercial	**Total Group - ongoing operations[1]**	Brokered commercial business and run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
2023							
Reinsurance contracts assets/ (liabilities)							
Remaining coverage	**(16.9)**	**(4.7)**	**(1.5)**	**(3.4)**	**(26.5)**	**(90.1)**	**(116.6)**
Excluding loss component	(16.9)	(4.7)	(1.5)	(3.4)	**(26.5)**	(90.1)	**(116.6)**
Loss component	—	—	—	—	**–**	—	**–**
Incurred claims	**1,076.4**	**36.6**	**3.6**	**23.0**	**1,139.6**	**206.4**	**1,346.0**
Estimate of present value cash flows	1,012.7	32.8	3.1	21.0	**1,069.6**	194.8	**1,264.4**
Risk adjustment	63.7	3.8	0.5	2.0	**70.0**	11.6	**81.6**
Total reinsurance contracts assets/ (liabilities)	**1,059.5**	**31.9**	**2.1**	**19.6**	**1,113.1**	**116.3**	**1,229.4**
2022							
Reinsurance contracts assets/ (liabilities)							
Remaining coverage	**13.3**	**(5.2)**	**(1.2)**	**(2.6)**	**4.3**	**(4.9)**	**(0.6)**
Excluding loss component	13.3	(5.2)	(1.2)	(2.6)	**4.3**	(4.9)	**(0.6)**
Loss component	—	—	—	—	**–**	—	**–**
Incurred claims	**942.8**	**19.1**	**1.4**	**20.0**	**983.3**	**78.3**	**1,061.6**
Estimate of present value cash flows	866.6	13.5	0.6	17.2	**897.9**	68.4	**966.3**
Risk adjustment	76.2	5.6	0.8	2.8	**85.4**	9.9	**95.3**
Total reinsurance contracts assets/ (liabilities)	**956.1**	**13.9**	**0.2**	**17.4**	**987.6**	**73.4**	**1,061.0**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative performance measures on pages 84 to 87 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 1 and 21 for further details.

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

15.2.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – total Group

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2022	—	—	**–**	1,043.8	99.7	**1,143.5**	**1,143.5**
Insurance/reinsurance contract liabilities as at 1 January 2022	(3,470.8)	(221.3)	**(3,692.1)**	—	—	**–**	**(3,692.1)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(3,470.8)	(221.3)	**(3,692.1)**	1,043.8	99.7	**1,143.5**	**(2,548.6)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,369.9)	(65.4)	**(2,435.3)**	75.6	16.6	**92.2**	**(2,343.1)**
Past service – incurred claims	50.2	67.8	**118.0**	33.6	(21.0)	**12.6**	**130.6**
Effect of non-performance risk of reinsurers				(8.4)		**(8.4)**	**(8.4)**
Insurance service result[1]	(2,319.7)	2.4	**(2,317.3)**	100.8	(4.4)	**96.4**	**(2,220.9)**
Insurance/reinsurance finance expenses/income	102.4		**102.4**	(101.5)		**(101.5)**	**0.9**
Total amounts recognised in comprehensive income	(2,217.3)	2.4	**(2,214.9)**	(0.7)	(4.4)	**(5.1)**	**(2,220.0)**
Cash flows:							
Claims and other expenses paid/recovered	2,293.8		**2,293.8**	(76.8)		**(76.8)**	**2,217.0**
Total cash flows	2,293.8		**2,293.8**	(76.8)		**(76.8)**	**2,217.0**
Insurance/reinsurance contract liabilities/assets as at 31 December 2022	—	—	**–**	966.3	95.3	**1,061.6**	**1,061.6**
Insurance/reinsurance contract liabilities as at 31 December 2022	(3,394.3)	(218.9)	**(3,613.2)**	—	—	**–**	**(3,613.2)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(3,394.3)**	**(218.9)**	**(3,613.2)**	**966.3**	**95.3**	**1,061.6**	**(2,551.6)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,787.8)	(72.5)	(2,860.3)	464.6	27.7	492.3	(2,368.0)
Past service – incurred claims	(165.4)	84.5	(80.9)	(21.7)	(41.4)	(63.1)	(144.0)
Effect of non-performance risk of reinsurers				(5.8)		(5.8)	(5.8)
Insurance service result[1]	(2,953.2)	12.0	**(2,941.2)**	437.1	(13.7)	**423.4**	**(2,517.8)**
Insurance/reinsurance finance expenses/income	(193.8)		**(193.8)**	28.0		**28.0**	**(165.8)**
Total amounts recognised in comprehensive income	(3,147.0)	12.0	**(3,135.0)**	465.1	(13.7)	**451.4**	**(2,683.6)**
Cash flows:							
Claims and other expenses paid/recovered	2,667.3		**2,667.3**	(167.0)		**(167.0)**	**2,500.3**
Total cash flows	2,667.3		**2,667.3**	(167.0)		**(167.0)**	**2,500.3**
Insurance/reinsurance contract assets as at 31 December 2023	—	—	**–**	1,264.4	81.6	**1,346.0**	**1,346.0**
Insurance/reinsurance contract liabilities as at 31 December 2023	(3,874.0)	(206.9)	**(4,080.9)**	—	—	**–**	**(4,080.9)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(3,874.0)**	**(206.9)**	**(4,080.9)**	**1,264.4**	**81.6**	**1,346.0**	**(2,734.9)**

Note:

1 - The amounts recognised in Insurance service result for the year of £2,941.2 million (2022: £2,317.3 million) does not include other directly attributable expenses of £907.9 million (2022: £871.0 million) and other directly attributable claims income of £42.8 million (2022: £42.8 million) as these are not recognised within liabilities for incurred claims. Please see note 4.

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

15.2.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – total Group

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component	Loss component	**Total**	Excluding loss recovery component	Loss recovery component	**Total**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Insurance/reinsurance contract assets as at 1 January 2022	–	–	**–**	38.2	–	**38.2**	**38.2**
Insurance/reinsurance contract liabilities as at 1 January 2022	(1,033.4)	–	**(1,033.4)**	(3.6)	–	**(3.6)**	**(1,037.0)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(1,033.4)	–	**(1,033.4)**	34.6	–	**34.6**	**(998.8)**
Insurance revenue/reinsurance expenses	3,229.1		**3,229.1**	(165.7)		**(165.7)**	**3,063.4**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	3,229.1	–	**3,229.1**	(165.7)	–	**(165.7)**	**3,063.4**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	3,229.1	–	**3,229.1**	(165.7)	–	**(165.7)**	**3,063.4**
Cash flows:							
Premium received/paid	(3,191.0)		**(3,191.0)**	130.5		**130.5**	**(3,060.5)**
Total cash flows	(3,191.0)		**(3,191.0)**	130.5		**130.5**	**(3,060.5)**
Insurance/reinsurance contract liabilities/ assets as at 31 December 2022	17.3	–	**17.3**	13.3	–	**13.3**	**30.6**
Insurance/reinsurance contract liabilities as at 31 December 2022	(1,012.6)	–	**(1,012.6)**	(13.9)	–	**(13.9)**	**(1,026.5)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(995.3)**	**–**	**(995.3)**	**(0.6)**	**–**	**(0.6)**	**(995.9)**
Insurance revenue/reinsurance expenses	3,601.7		**3,601.7**	(470.2)		**(470.2)**	**3,131.5**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	3,601.7	–	**3,601.7**	(470.2)	–	**(470.2)**	**3,131.5**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	3,601.7	–	**3,601.7**	(470.2)	–	**(470.2)**	**3,131.5**
Cash flows:							
Premium received/paid	(3,758.9)		**(3,758.9)**	354.2		**354.2**	**(3,404.7)**
Total cash flows	(3,758.9)		**(3,758.9)**	354.2		**354.2**	**(3,404.7)**
Insurance/reinsurance contract assets as at 31 December 2023	5.4	–	**5.4**	–	–	**–**	**5.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(1,157.9)	–	**(1,157.9)**	(116.6)	–	**(116.6)**	**(1,274.5)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(1,152.5)**	**–**	**(1,152.5)**	**(116.6)**	**–**	**(116.6)**	**(1,269.1)**

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

15.3.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – ongoing operations

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2022	—	—	**–**	959.2	89.1	**1,048.3**	**1,048.3**
Insurance/reinsurance contract liabilities as at 1 January 2022	(2,855.8)	(187.4)	**(3,043.2)**	—	—	**–**	**(3,043.2)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(2,855.8)	(187.4)	**(3,043.2)**	959.2	89.1	**1,048.3**	**(1,994.9)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(1,988.7)	(52.6)	**(2,041.3)**	68.1	13.7	**81.8**	**(1,959.5)**
Past service – incurred claims	(1.8)	53.1	**51.3**	31.2	(17.4)	**13.8**	**65.1**
Effect of non-performance risk of reinsurers				(7.6)		**(7.6)**	**(7.6)**
Insurance service result[1]	(1,990.5)	0.5	**(1,990.0)**	91.7	(3.7)	**88.0**	**(1,902.0)**
Insurance/reinsurance finance expenses/ income	91.4		**91.4**	(96.4)		**(96.4)**	**(5.0)**
Total amounts recognised in comprehensive income	(1,899.1)	0.5	**(1,898.6)**	(4.7)	(3.7)	**(8.4)**	**(1,907.0)**
Cash flows:							
Claims and other expenses paid/ recovered	1,899.5		**1,899.5**	(56.6)		**(56.6)**	**1,842.9**
Total cash flows	1,899.5		**1,899.5**	(56.6)		**(56.6)**	**1,842.9**
Insurance/reinsurance contract liabilities/ assets as at 31 December 2022	—	—	**–**	897.9	85.4	**983.3**	**983.3**
Insurance/reinsurance contract liabilities as at 31 December 2022	(2,855.4)	(186.9)	**(3,042.3)**	—	—	**–**	**(3,042.3)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(2,855.4)**	**(186.9)**	**(3,042.3)**	**897.9**	**85.4**	**983.3**	**(2,059.0)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(2,280.2)	(57.1)	(2,337.3)	330.9	20.7	351.6	(1,985.7)
Past service – incurred claims	(163.2)	69.4	(93.8)	(29.4)	(36.1)	(65.5)	(159.3)
Effect of non-performance risk of reinsurers				(5.8)		(5.8)	(5.8)
Insurance service result[1]	(2,443.4)	12.3	**(2,431.1)**	295.7	(15.4)	**280.3**	**(2,150.8)**
Insurance/reinsurance finance expenses/ income	(170.4)		**(170.4)**	27.5		**27.5**	**(142.9)**
Total amounts recognised in comprehensive income	(2,613.8)	12.3	**(2,601.5)**	323.2	(15.4)	**307.8**	**(2,293.7)**
Cash flows:							
Claims and other expenses paid/ recovered	2,217.5		**2,217.5**	(151.5)		**(151.5)**	**2,066.0**
Total cash flows	2,217.5		**2,217.5**	(151.5)		**(151.5)**	**2,066.0**
Insurance/reinsurance contract assets as at 31 December 2023	—	—	**–**	1,069.6	70.0	**1,139.6**	**1,139.6**
Insurance/reinsurance contract liabilities as at 31 December 2023	(3,251.7)	(174.6)	**(3,426.3)**	—	—	**–**	**(3,426.3)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(3,251.7)**	**(174.6)**	**(3,426.3)**	**1,069.6**	**70.0**	**1,139.6**	**(2,286.7)**

Note:

1- The amounts recognised in Insurance service result do not include other directly attributable expenses and other directly attributable claims income, as these are not recognised within liabilities for incurred claims.

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

15.3.2 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – ongoing operations

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component	Loss component	Total	Excluding loss recovery component	Loss recovery component	Total	Total
	£m	£m	£m	£m	£m	£m	£m
Insurance/reinsurance contract assets as at 1 January 2022	–	–	**–**	38.2	–	**38.2**	**38.2**
Insurance/reinsurance contract liabilities as at 1 January 2022	(762.1)	–	**(762.1)**	(3.4)	–	**(3.4)**	**(765.5)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(762.1)	–	**(762.1)**	34.8	–	**34.8**	**(727.3)**
Insurance revenue/reinsurance expenses	2,609.9		**2,609.9**	(128.1)		**(128.1)**	**2,481.8**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	2,609.9	–	**2,609.9**	(128.1)	–	**(128.1)**	**2,481.8**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	2,609.9	–	**2,609.9**	(128.1)	–	**(128.1)**	**2,481.8**
Cash flows:							
Premium received/paid	(2,619.1)		**(2,619.1)**	97.6		**97.6**	**(2,521.5)**
Total cash flows	(2,619.1)		**(2,619.1)**	97.6		**97.6**	**(2,521.5)**
Insurance/reinsurance contract liabilities/ assets as at 31 December 2022	–	–	**–**	13.3	–	**13.3**	**13.3**
Insurance/reinsurance contract liabilities as at 31 December 2022	(771.3)	–	**(771.3)**	(9.0)	–	**(9.0)**	**(780.3)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(771.3)**	**–**	**(771.3)**	**4.3**	**–**	**4.3**	**(767.0)**
Insurance revenue/reinsurance expenses	2,852.9		**2,852.9**	(305.4)		**(305.4)**	**2,547.5**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	2,852.9	–	**2,852.9**	(305.4)	–	**(305.4)**	**2,547.5**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	2,852.9	–	**2,852.9**	(305.4)	–	**(305.4)**	**2,547.5**
Cash flows:							
Premium received/paid	(2,950.3)		**(2,950.3)**	274.6		**274.6**	**(2,675.7)**
Total cash flows	(2,950.3)		**(2,950.3)**	274.6		**274.6**	**(2,675.7)**
Insurance/reinsurance contract assets as at 31 December 2023	–	–	**–**	–	–	**–**	**–**
Insurance/reinsurance contract liabilities as at 31 December 2023	(868.7)	–	**(868.7)**	(26.5)	–	**(26.5)**	**(895.2)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(868.7)**	**–**	**(868.7)**	**(26.5)**	**–**	**(26.5)**	**(895.2)**

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

15.4.1 Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for incurred claims – brokered commercial business and run-off partnerships

	Insurance contracts issued - liability for incurred claims			Reinsurance contracts held - amounts recovered on incurred claims			Net
	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	Estimate of present value cash flows	Risk adjustment for non-financial risk	**Total**	**Total**
	£m	£m	**£m**	£m	£m	**£m**	**£m**
Insurance/reinsurance contract assets as at 1 January 2022	—	—	**–**	84.5	10.6	**95.1**	**95.1**
Insurance/reinsurance contract liabilities as at 1 January 2022	(615.0)	(33.9)	**(648.9)**	—	—	**–**	**(648.9)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(615.0)	(33.9)	**(648.9)**	84.5	10.6	**95.1**	**(553.8)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(381.2)	(12.8)	**(394.0)**	7.5	2.9	**10.4**	**(383.6)**
Past service – incurred claims	51.9	14.7	**66.6**	2.3	(3.6)	**(1.3)**	**65.3**
Effect of non-performance risk of reinsurers				(0.7)		**(0.7)**	**(0.7)**
Insurance service result[1]	(329.3)	1.9	**(327.4)**	9.1	(0.7)	**8.4**	**(319.0)**
Insurance/reinsurance finance expenses/income	11.0		**11.0**	(5.1)		**(5.1)**	**5.9**
Total amounts recognised in comprehensive income	(318.3)	1.9	**(316.4)**	4.0	(0.7)	**3.3**	**(313.1)**
Cash flows:							
Claims and other expenses paid/recovered	394.4		**394.4**	(20.1)		**(20.1)**	**374.3**
Total cash flows	394.4		**394.4**	(20.1)		**(20.1)**	**374.3**
Insurance/reinsurance contract liabilities/assets as at 31 December 2022	—	—	**–**	68.4	9.9	**78.3**	**78.3**
Insurance/reinsurance contract liabilities as at 31 December 2022	(538.9)	(32.0)	**(570.9)**	—	—	**–**	**(570.9)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(538.9)**	**(32.0)**	**(570.9)**	**68.4**	**9.9**	**78.3**	**(492.6)**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses	(507.6)	(15.4)	(523.0)	133.8	7.1	140.9	(382.1)
Past service – incurred claims	(2.2)	15.1	12.9	7.7	(5.4)	2.3	15.2
Effect of non-performance risk of reinsurers				—		—	—
Insurance service result[1]	(509.8)	(0.3)	**(510.1)**	141.5	1.7	**143.2**	**(366.9)**
Insurance/reinsurance finance expenses/income	(23.4)		**(23.4)**	0.5		**0.5**	**(22.9)**
Total amounts recognised in comprehensive income	(533.2)	(0.3)	**(533.5)**	142.0	1.7	**143.7**	**(389.8)**
Cash flows:							
Claims and other expenses paid/recovered	449.8		**449.8**	(15.6)		**(15.6)**	**434.2**
Total cash flows	449.8		**449.8**	(15.6)		**(15.6)**	**434.2**
Insurance/reinsurance contract assets as at 31 December 2023	—	—	**–**	194.8	11.6	**206.4**	**206.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(622.3)	(32.3)	**(654.6)**	—	—	**–**	**(654.6)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(622.3)**	**(32.3)**	**(654.6)**	**194.8**	**11.6**	**206.4**	**(448.2)**

Note:

1 - The amounts recognised in Insurance service result do not include other directly attributable expenses and other directly attributable claims income, as these amounts are not recognised within liabilities for incurred claims.

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

15.4.2 - Roll-forward of net asset or liability for insurance contracts issued and reinsurance contracts held showing the liability for remaining coverage – brokered commercial business and run-off partnerships

	Insurance contracts issued - liability for remaining coverage			Reinsurance contracts held - asset for remaining coverage			Net
	Excluding loss component	Loss component	**Total**	Excluding loss recovery component	Loss recovery component	**Total**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Insurance/reinsurance contract assets as at 1 January 2022	–	–	**–**	–	–	**–**	**–**
Insurance/reinsurance contract liabilities as at 1 January 2022	(271.2)	–	**(271.2)**	(0.2)	–	**(0.2)**	**(271.4)**
Net insurance/reinsurance contract liabilities/assets as at 1 January 2022	(271.2)	–	**(271.2)**	(0.2)	–	**(0.2)**	**(271.4)**
Insurance revenue/reinsurance expenses	619.2		**619.2**	(37.6)		**(37.6)**	**581.6**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	619.2	–	**619.2**	(37.6)	–	**(37.6)**	**581.6**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	619.2	–	**619.2**	(37.6)	–	**(37.6)**	**581.6**
Cash flows:							
Premium received/paid	(572.0)		**(572.0)**	32.9		**32.9**	**(539.1)**
Total cash flows	(572.0)		**(572.0)**	32.9		**32.9**	**(539.1)**
Insurance/reinsurance contract liabilities/ assets as at 31 December 2022	17.3	–	**17.3**	–	–	**–**	**17.3**
Insurance/reinsurance contract liabilities as at 31 December 2022	(241.3)	–	**(241.3)**	(4.9)	–	**(4.9)**	**(246.2)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2022	**(224.0)**	**–**	**(224.0)**	**(4.9)**	**–**	**(4.9)**	**(228.9)**
Insurance revenue/reinsurance expenses	748.8		**748.8**	(164.8)		**(164.8)**	**584.0**
Insurance service expenses:							
Incurred claims/claims recovered and other attributable expenses		–	**–**		–	**–**	**–**
Losses/ loss recovery and reversal of losses from onerous contracts		–	**–**		–	**–**	**–**
Insurance service result	748.8	–	**748.8**	(164.8)	–	**(164.8)**	**584.0**
Insurance/reinsurance finance expenses/ income		–	**–**		–	**–**	**–**
Total amounts recognised in comprehensive income	748.8	–	**748.8**	(164.8)	–	**(164.8)**	**584.0**
Cash flows:							
Premium received/paid	(808.6)		**(808.6)**	79.6		**79.6**	**(729.0)**
Total cash flows	(808.6)		**(808.6)**	79.6		**79.6**	**(729.0)**
Insurance/reinsurance contract assets as at 31 December 2023	5.4	–	**5.4**	–	–	**–**	**5.4**
Insurance/reinsurance contract liabilities as at 31 December 2023	(289.2)	–	**(289.2)**	(90.1)	–	**(90.1)**	**(379.3)**
Net insurance/reinsurance contract liabilities/assets as at 31 December 2023	**(283.8)**	**–**	**(283.8)**	**(90.1)**	**–**	**(90.1)**	**(373.9)**

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

15.5 Insurance and reinsurance contract assets and liabilities - claims development tables

Gross insurance liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Estimate of ultimate gross claims costs:										
At end of accident year	2,135.9	2,169.8	2,226.8	2,337.6	2,085.7	1,786.5	1,912.8	2,283.2	2,755.0	
One year later	(57.4)	(95.8)	(142.6)	(129.6)	(72.0)	(79.4)	(5.7)	132.9		
Two years later	(131.5)	(63.9)	(108.8)	(48.7)	(43.5)	(13.8)	(34.7)			
Three years later	(58.5)	(89.5)	(38.0)	(6.0)	3.7	35.9				
Four years later	(28.7)	(42.9)	(20.4)	25.5	14.1					
Five years later	(21.9)	(13.5)	1.5	23.8						
Six years later	1.0	(12.0)	21.6							
Seven years later	22.4	9.2								
Eight years later	(18.2)									
Current estimate of cumulative claims	1,843.1	1,861.4	1,940.1	2,202.6	1,988.0	1,729.2	1,872.4	2,416.1	2,755.0	
Cumulative payments to date	(1,741.1)	(1,797.4)	(1,850.1)	(1,993.2)	(1,759.5)	(1,414.3)	(1,474.8)	(1,806.2)	(1,336.4)	
Gross liability recognised in the statement of financial position	**102.0**	**64.0**	**90.0**	**209.4**	**228.5**	**314.9**	**397.6**	**609.9**	**1,418.6**	**3,434.9**
2014 and prior										**1,761.6**
Claims handling provision										**109.6**
Adjustment for non-financial risk										**289.3**
Effect of discounting										**(1,571.6)**
Other LIC										**57.1**
Total										**4,080.9**

Net insurance contract liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Estimate of ultimate net claims costs:										
At end of accident year	1,920.1	1,934.4	2,012.0	2,141.0	1,922.8	1,623.6	1,758.1	2,184.2	2,241.9	
One year later	(79.5)	(31.4)	(95.9)	(82.2)	(37.2)	(54.0)	2.4	168.1		
Two years later	(63.4)	(47.2)	(61.4)	(20.7)	(40.7)	(39.2)	(13.0)			
Three years later	(29.4)	(43.4)	(17.7)	(24.0)	(4.5)	50.0				
Four years later	(21.8)	(15.2)	(27.5)	7.3	11.6					
Five years later	(22.8)	(10.1)	(9.4)	24.1						
Six years later	(1.8)	(11.6)	9.5							
Seven years later	1.3	(3.8)								
Eight years later	(3.6)									
Current estimate of cumulative claims	1,699.1	1,771.7	1,809.6	2,045.5	1,852.0	1,580.4	1,747.5	2,352.3	2,241.9	
Cumulative payments to date	(1,671.0)	(1,746.7)	(1,765.8)	(1,945.6)	(1,718.7)	(1,375.2)	(1,442.8)	(1,804.9)	(1,088.6)	
Gross liability recognised in the statement of financial position	**28.1**	**25.0**	**43.8**	**99.9**	**133.3**	**205.2**	**304.7**	**547.4**	**1,153.3**	**2,540.7**
2014 and prior										**919.5**
Claims handling provision										**91.4**
Adjustment for non-financial risk										**158.7**
Effect of discounting										**(800.7)**
Other LIC										**(174.7)**
Total										**2,734.9**

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

15.6 Analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis

The Group settles some large bodily injury claims as PPOs rather than lump sum payments.

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2023 and 31 December 2022. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	**Discounted 2023 £m**	**Undiscounted 2023 £m**	Discounted 2022 £m	Undiscounted 2022 £m
Gross claims				
Approved PPO claims provisions	**542.6**	**1,603.4**	518.7	1,394.0
Anticipated PPOs	**112.5**	**300.7**	124.5	328.2
Total	**655.1**	**1,904.1**	643.2	1,722.2
Reinsurance				
Approved PPO claims provisions	**(300.1)**	**(905.2)**	(290.5)	(795.3)
Anticipated PPOs	**(79.7)**	**(228.8)**	(84.7)	(242.9)
Total	**(379.8)**	**(1,134.0)**	(375.2)	(1,038.2)
Net of reinsurance				
Approved PPO claims provisions	**242.5**	**698.2**	228.2	598.7
Anticipated PPOs	**32.8**	**71.9**	39.8	85.3
Total	**275.3**	**770.1**	268.0	684.0

The provisions for PPOs have been categorised as either claims which have already been determined by the courts as PPOs (approved PPO claims provisions) or those expected to settle as PPOs in the future (anticipated PPOs). The Group has estimated the likelihood of large bodily injury claims settling as PPOs. The anticipated PPOs in the table above are based on historically observed propensities adjusted for the assumed Ogden discount rate.

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term cashflow-weighted average rate is assumed to be 3.9% (2022: 4.2%). The Group has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 4.6% (2022: 4.8%, which results in a real discount rate of 0.7% (2022: 0.6%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

16. Financial investments

	2023 £m	2022 £m restated[1]
Debt securities measured at fair value through the profit or loss		
Corporate	**2,530.8**	2,605.1
Supranational	**25.6**	25.2
Local government	**0.9**	5.9
Sovereign	**680.8**	511.3
Total	**3,238.1**	3,147.5
Debt securities measured at amortised cost		
Corporate	**70.6**	97.2
Total	**70.6**	97.2
Total debt securities	**3,308.7**	3,244.7
Of which:		
Fixed interest rate[2]	**3,307.5**	3,231.1
Floating interest rate	**1.2**	13.6
Loans and receivables measured at amortised cost		
Infrastructure debt	**214.2**	236.8
Commercial real estate loans	**145.9**	198.9
Other loans	**3.1**	1.6
Total loans and receivables	**363.2**	437.3
Unquoted equity investments measured at fair value through other comprehensive income[3,4]	**18.9**	13.3
Unquoted equity investments measured at fair value through the profit or loss[3]	**0.7**	0.8
Quoted equity investments measured at fair value through the profit or loss[3]	**0.1**	0.3
Total	**3,691.6**	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 1 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 31 December 2023 was £419.4 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.
4. On initial recognition the Group made an irrevocable election to classify some equity investments as FVOCI given the instruments are strategic in nature, and are not held for trading.

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

The table below shows the gross carrying value of financial investments in stages 1 – 3:

	Gross carrying amount 2023 £m	ECL allowance 2023 £m	Carrying amount 2023 £m	Carrying amount 31 Dec 2022 £m	Carrying amount 1 Jan 2022 £m
Stage 1	416.8	(1.3)	415.5	509.6	514.3
Stage 2	13.6	(1.0)	12.6	17.9	15.6
Stage 3	28.9	(23.2)	5.7	7.0	8.8
Total	**459.3**	**(25.5)**	**433.8**	**534.5**	**538.7**

16. Financial investments continued

The following table shows the Group's updated expected credit loss allowances for financial investments measured at amortised cost should there be a three-notch downgrade. 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
	2023	**2023**	2022	2022
	£m	**£m**	£m	£m
Infrastructure debt	(16.6)	(19.2)	(17.0)	(20.6)
Commercial real estate loans	(7.7)	(10.5)	(6.5)	(10.2)
Debt securities held at amortised cost	(0.8)	(2.7)	(1.0)	(3.6)
Other loans	(0.4)	(0.4)	(0.3)	(0.3)
Total	**(25.5)**	**(32.8)**	**(24.8)**	**(34.7)**

17. Cash and cash equivalents and borrowings

	2023	2022
	£m	£m
Short term deposits with credit institutions[1]	**1,624.2**	878.8
Cash at bank and in hand	**148.0**	124.8
Cash and cash equivalents	**1,772.2**	1,003.6
Bank overdrafts[2]	**(82.4)**	(65.2)
Cash and cash equivalents and borrowings[3]	**1,689.8**	938.4

Notes:

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

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2023 was 4.57% (2022: 1.46%) and average maturity was 10 days (2022: 10 days).

Of the total amount of short-term deposits with credit institutions of £1,624.2 million (2022: £878.8 million), £241.8 million (2022: £nil) is invested within money market funds under the 100% quota share reinsurance treaty for the brokered commercial business, which is operated on a funds withheld basis. This entitles the reinsurer to the investment return earned on underlying collateral assets held in money market funds. The Group has appointed a custodian for the asset while retaining ownership of the funds withheld assets collateral.

18. 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. There were no changes in valuation techniques during the year.

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, debt securities measured at amortised cost, infrastructure debt, commercial real estate loans, unquoted equity investments and other loans are those derived from a valuation technique that includes inputs for the asset that are unobservable. Debt securities measured at amortised cost 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 and are based on several unobservable inputs including market multiples and cash flow forecasts; and unquoted equity shares in a strategic investment.

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

At 31 December 2023	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	**277.1**	—	—	277.1	**277.1**
Derivative assets	**27.4**	—	27.4	—	**27.4**
Debt securities	**3,238.1**	680.8	2,555.8	1.5	**3,238.1**
Listed equity investments	**0.1**	—	0.1	—	**0.1**
Unlisted equity investments	**0.7**	—	—	0.7	**0.7**
Assets held at fair value through other comprehensive income:					
Equity investments	**18.9**	—	—	18.9	**18.9**
Assets held at amortised cost:					
Debt securities	**70.6**	—	16.2	49.4	**65.6**
Infrastructure debt	**214.2**	—	—	213.9	**213.9**
Commercial real estate loans	**145.9**	—	—	145.4	**145.4**
Other loans	**3.1**	**–**	**–**	**3.1**	**3.1**
Total	**3,996.1**	**680.8**	**2,599.5**	**710.0**	**3,990.3**
Liabilities held at fair value through profit or loss:					
Derivative liabilities	**15.4**	—	15.4	—	**15.4**
Other financial liabilities:					
Subordinated liabilities	**258.8**	—	212.8	—	**212.8**
Total	**274.2**	**–**	**228.2**	**–**	**228.2**

18. Fair value continued

At 31 December 2022 (restated[1])	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**
Listed equity investments	**0.3**	–	0.3	–	**0.3**
Unlisted equity investments	**0.8**	–	–	0.8	**0.8**
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 1 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 5.

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.

	Fair value £m		Valuation technique	Unobservable input	Range (weighted average)	
	2023	2022			**2023**	2022
Investment property	**277.1[1]**	278.5[1]	Income capitalisation	Equivalent yield (note 18)	**4.50% – 7.96% (average 5.77%)**	4.23% – 7.61% (average 5.62%)
				Estimated rental value per square foot	**£7.00 – £35.00 (average £16.38)**	£6.50 – £32.92 (average £13.59)

Note:

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

18. 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 held at FVOCI £m	Unquoted equity investments held at FVTPL £m
At 1 January 2023 (restated[1])	**278.5**	**13.3**	**0.8**
Additions	**0.5**	**3.0**	**–**
(Reduction)/increase in fair value in the period	**(1.9)**	**3.3**	**(0.1)**
Disposals	**–**	**(0.6)**	**–**
Foreign exchange movement	**–**	**(0.1)**	**–**
At 31 December 2023	**277.1**	**18.9**	**0.7**

Note:

1. Opening balances have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.

19. Acquisitions

By Miles Group Limited

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	**(5.2)**
Net identifiable assets and liabilities	**(2.7)**
Goodwill	**2.7**

By Miles is a Managing General Agent and provider of real-time pay-by-mile insurance policies.

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

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. None of the goodwill is expected to be deductible for tax purposes.

The fair value of trade and other receivables acquired is equal to the gross contractual amount receivable of £0.5m.

By Miles has contributed £4.7 million to the Group's other operating income and a loss of £3.2 million to the Group's consolidated profit before tax from the acquisition date to 31 December 2023. Had the acquisition occurred on 1 January 2023, By Miles would have contributed £5.7 million to the Group's other operating income and a loss of £6.2 million to profit before tax. Amounts have been calculated using consistent accounting policies to those used by the Group.

Vehicle repair workshop

On 1 April 2023, the Group acquired the business and assets of a vehicle repair centre to further expand the Group's wholly owned DLG Auto Services network. Details of the business combination are as follows:

	1 April 2023 £m
Amount settled in cash	**1.7**
Recognised amounts of identifiable net assets:	
ROU assets	**0.8**
Property, plant and equipment	**0.8**
Lease liabilities	**(0.8)**
Net identifiable assets and liabilities	**0.8**
Goodwill	**0.9**

Goodwill represents the value attributed to the business by the Group as part of its ongoing strategy of developing its repair network.

The Group measured the acquired lease liabilities and matching ROU assets using the present value of the remaining lease payments at the date of acquisition.

No disclosure has been made for revenue and profit before tax generated as the Group does not manage its business at this level.

20. 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 year ended 31 December 2023 (2022: £nil).

Full details of the Group's related party transactions for the year ended 31 December 2022 are included on page 249 of the Annual Report & Accounts 2022.

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	1 January 2022 £m	ECL £m	Other £m	1 January 2022 £m restated[1]
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	Available-for-sale ("AFS")	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**

Notes:

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

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2022 results in additional allowance for impairment as follows:

	£m
Loss allowance as at 31 December 2021 under IAS 39	**20.1**
Additional impairment recognised at 1 January 2022 on:	
Debt securities measured at amortised cost	**1.2**
Infrastructure debt	**1.8**
Commercial real estate loans	**0.6**
Other loans	**0.5**
Loss allowance at 1 January 2022 under IFRS 9	**24.2**

21.2 First-time adoption of new accounting standards

Impact on the consolidated statement of comprehensive income for the period ended 31 December 2022.

	31 December 2022 £m	First-time adoption of IFRS 9 £m	First-time adoption of IFRS 17 £m	**31 December 2022** £m restated[1]
(Loss)/profit for the year attributable to the owners of the Company	**(39.5)**	(202.0)	9.6	**(231.9)**
Other comprehensive (loss)/income for the year for the period net of tax	**(210.8)**	203.2	—	**(7.6)**
Total comprehensive (loss)/income for the year for the period attributable to the owners of the Company	**(250.3)**	1.2	9.6	**(239.5)**
(Loss)/earnings per share				
Basic (loss)/earnings per share (pence)	**(4.3)**	(15.5)	0.7	**(19.1)**
Diluted (loss)/earnings per share (pence)	**(4.3)**	(15.5)	0.7	**(19.1)**

Note:

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

21.3 First-time adoption of new accounting standards

Impact on the consolidated statement of financial position as at 1 January 2022.

	1 January 2022	First-time adoption of IFRS 9	First-time adoption of IFRS 17		1 January 2022
			Presentation changes	Measurement changes	
	£m	£m	£m	£m	£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[2,3]	**1,211.8**	—	(4.4)	(25.7)	**1,181.7**
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[2]	**762.8**	—	(734.4)	—	**28.4**
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)**	**(738.8)**	**(183.1)**	**8,382.7**
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[2]	**3,680.5**	—	(365.0)	1,410.1	**4,725.6**
Reinsurance contract liabilities[3]	**–**	—	—	3.6	**3.6**
Unearned premium reserve	**1,500.7**	—	—	(1,500.7)	**–**
Borrowings	**59.2**	—	—	—	**59.2**
Derivative financial instruments	**19.5**	—	—	—	**19.5**
Provisions[2]	**96.4**	—	(48.3)	—	**48.1**
Trade and other payables[2]	**457.3**	—	(325.5)	—	**131.8**
Lease liabilities	**84.2**	—	—	—	**84.2**
Deferred tax liabilities	**0.5**	(0.5)	—	—	**–**
Total liabilities	**6,411.9**	**(0.5)**	**(738.8)**	**(87.0)**	**5,585.6**
Total equity and liabilities	**9,308.6**	**(4.0)**	**(738.8)**	**(183.1)**	**8,382.7**

Note:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 22 for further details.
2. Following publication of the Group's H1 2023 Interim Report, the Group has reclassified some elements of the following balances into insurance contract liabilities and reinsurance contract assets: Other receivables (£176.7 million asset in the interim report), provisions (£96.4 million liability in the interim report) and trade and other payables (£133.9 million liability in the interim report). The balance reported in the interim report for insurance contract liabilities was £4,669.7 million and reinsurance contract assets was £946.6 million.
3. Since the publication of the H1 2023 Interim Report, £3.6 million has been reclassified between reinsurance contract assets and reinsurance contract liabilities.

The quantitative impact on the statement of financial position of the first-time adoption of IFRS 9 and 17 on the transition date is explained in note 1.3 of these financial statements.

21.4 First-time adoption of new accounting standards

Impact on the consolidated cash flow statement for the year ended 31 December 2022.

	31 December 2022 £m	First-time adoption of IFRS 9 £m	First-time adoption of IFRS 17 £m	31 December 2022 £m restated[1]
Net cash generated from operating activities	**800.2**	–	–	**800.2**
Net cash used in investing activities	**(100.8)**	–	–	**(100.8)**
Net cash used in financing activities	**(657.5)**	–	–	**(657.5)**
Net increase in cash and cash equivalents	**41.9**	–	–	**41.9**
Cash and cash equivalents at the beginning of the year	**896.5**	–	–	**896.5**
Cash and cash equivalents at the end of the period	**938.4**	–	–	**938.4**

Note:

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

Corporate information

Direct Line Insurance Group plc is a public limited company registered in England and Wales, (company number 02280426). The address of the registered office is Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

Statutory accounts information

The Annual Report & Accounts 2022 were signed on 24 March 2023 and were delivered to the Registrar of Companies following the Annual General Meeting held on 9 May 2023. The Annual Report & Accounts 2022 is available at: www.directlinegroup.co.uk/content/dam/dlg/corporate/images-and-documents/investors/oar-2022/documents/handoverpack-2022-ara-web-ready.zip.downloadasset.zip

At the time of the publishing of the Preliminary Results for 2023 the Annual Report & Accounts 2023 had not been published. Once published, the Annual Report & Accounts 2023 will be available on the Group's website at www.directlinegroup.co.uk

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.
Brokered commercial business ("NIG")	The brokered commercial insurance business of U K Insurance Limited which it was announced on 6 September 2023 was being sold to Royal & Sun Alliance Insurance Limited. The Group has retained the back book of the business written and earned prior to 1 October 2023 (the "Risk Transfer Date"). Business written and earned on and subsequent to the Risk Transfer Date will be subject to a quota share arrangement between the two companies. Over time the two Companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date. The term brokered commercial business 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.
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 statement of financial position 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 are not comparable to combined operating ratios that were calculated on an IFRS 4 basis published previously. (See page 84 - Alternative Performance Measures.)
Current-year attritional net insurance claims 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 84 - 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.
Events not in data ("ENIDs")	Events not in data allow for short- and long-term risks not reflected in other actuarial inputs, including uncertainties in relation to the actuarial best estimate.
Fair value through profit or loss ("FVTPL")	A financial asset or liability where at each statement of financial position date the asset or liability is remeasured to fair value and any movement in that fair value is taken directly to the statement of profit or loss.
Fair value 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 5 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 GWP is now included in service fee income. GWP is included for the Motability contract for the following six months at the commencement of each six month pricing period.
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 statement of profit or loss 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 84 - Alternative Performance Measures.)
Investment return	Total investment income recognised through the statement of profit or loss, earned from the investment portfolio, including investment fees, unrealised and realised gains and losses, impairments and fair value adjustments.

Term	Definition and explanation
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 84 - Alternative Performance Measures.)
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 cost ratio	The ratio of acquisition costs divided by net insurance contract revenue (See page 84 - Alternative Performance Measures.)
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 84 - Alternative Performance Measures.)
Net insurance claims ratio	The ratio of net insurance contract claims divided by net insurance contract revenue (See page 84 - 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 84 - Alternative Performance Measures.)
Net insurance revenue	The total insurance contract revenue (consisting of gross written premium and associated fees, instalment income and movement in liability for remaining coverage) less expenses from reinsurance contracts held (consisting of 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 brokered commercial business and run-off partnerships segments. Please also refer to **brokered commercial business** and **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' as brokered commercial business and run-off partnerships do not meet the criteria of discontinued operations and have not been accounted for as such. (See page 84 - Alternative Performance Measures.)
Operating earnings/(loss) per share	The earnings attributable to the owners of the Company. The Group's profits, which include brokered commercial business and 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 and gain on disposal of business. **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 85 - 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 85 - 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 93)
Periodical 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.

Term	Definition and explanation
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.
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 85 - 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 85 - 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, statement of financial position, financial condition, prospects, growth, net insurance margin, insurance service result, 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, net insurance margin, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in net 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 and/or the conflict in the Middle East involving Israel and Gaza;
- 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, requirements, 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.

Further information

This announcement is not intended to and does not constitute an offer to buy or the solicitation of an offer to subscribe for or sell or an invitation to purchase or subscribe for any securities or the solicitation of any vote in any jurisdiction. The release, publication or distribution of this announcement in whole or in part, directly or indirectly, in, into or from certain jurisdictions may be restricted by law and therefore persons in such jurisdictions should inform themselves about and observe such restrictions.

Goldman Sachs International, ("**Goldman Sachs**") which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Direct Line Insurance Group plc and no one else in connection with the matters referred to in this announcement and will not be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to clients of Goldman Sachs International, or for providing advice in relation to the matters referred to in this announcement.

Morgan Stanley & Co. International plc ("**Morgan Stanley**"), which is authorised by the Prudential Regulation Authority and regulated by the PRA and the Financial Conduct Authority in the United Kingdom, is acting exclusively for Direct Line Insurance Group plc and for no one else in connection with the possible offer and neither Morgan Stanley nor any of its affiliates, nor their respective directors, officers, employees or agents will be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to its clients or for providing advice in relation to the possible offer, the contents of this announcement or any other matters referred to in this announcement.

RBC Europe Limited, which is authorised by the PRA and regulated by the PRA and the FCA in the United Kingdom, is acting exclusively for Direct Line Insurance Group plc and for no one else in connection with the possible offer and neither RBC Europe Limited nor any of its affiliates, nor their respective directors, officers, employees or agents will be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to its clients or for providing advice in relation to the possible offer, the contents of this announcement or any other matters referred to in this announcement.

Robey Warshaw LLP, which is authorised and regulated in the United Kingdom by the FCA, is acting as financial adviser exclusively for Direct Line Insurance Group plc and no one else in connection with the matters referred to in this announcement and will not regard any other person as its client in relation to the matters referred to in this announcement and will not be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to clients of Robey Warshaw LLP, nor for providing advice in relation to the matters referred to in this announcement.

J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove ("**J.P. Morgan Cazenove**"), is authorised in the United Kingdom by the PRA and regulated in the United Kingdom by the PRA and the Financial Conduct Authority. J.P. Morgan Cazenove is acting as financial advisor exclusively for Direct Line Insurance Group plc and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters set out in this announcement and will not be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to clients of J.P. Morgan Cazenove or its affiliates, nor for providing advice in relation to the matters set out in this announcement or any other matter or arrangement referred to herein.

No post-offer undertaking

No statement in this announcement constitutes a post-offer undertaking for the purposes of Rule 19.5 of the Takeover Code.

No profit forecasts or estimates

No statement in this announcement is intended as a profit forecast or estimate for any period.

Quantified Financial Benefits Statement

The Quantified Financial Benefits Statement relates to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies and which may in some cases be subject to consultation with employees or their representatives. The targets, cost savings and efficiency gains referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. For the purposes of Rule 28 of the Takeover Code, the Quantified Financial Benefits Statement is the responsibility of Direct Line Insurance Group plc and the directors of Direct Line Insurance Group plc.

Dealing Disclosure Requirements

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeror company and by any offeree and Dealing Disclosures must also be made by the offeror company, by any offeree and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeror and offeree companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeree was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on website and hard copies

A copy of this announcement and the documents required to be published by Rule 26 of the Takeover Code will be made available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on the Company's website at directlinegroup.co.uk by no later than 12 noon (London time) on the business day following the date of this announcement. For the avoidance of doubt, the contents of those websites are not incorporated into and do not form part of this announcement.

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 78 to 80 and reconciled to the most directly reconcilable line items in the financial statements and notes. Note 3 on page 49 of the consolidated financial statements presents a reconciliation of the Group's business activities on a segmental basis to the consolidated statement of profit or loss. All note references in the table below are to the notes to the consolidated financial statements on pages 36 to 77.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Combined operating ratio	Insurance service result	Combined operating ratio is defined in the glossary on page 78 and reconciled in Appendix B on pages 88 to 91.	This is a measure of underwriting profitability and excludes non-insurance income, whereby a ratio of less than 100% represents an underwriting profit and a ratio of more than 100% represents an underwriting loss.
Current-year attritional insurance claims ratio	Net insurance claims	Current-year attritional claims ratio is defined in the glossary on page 78 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 insurance revenue.
Gross written premium and associated fees	Insurance revenue	Gross written premium and associate fees is defined in the glossary on page 78 and reconciled in Appendix B on page 70.	The IFRS 17 profit or loss account disclosures reflect revenue earned from service provided, compared to a premium 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 78 and is reconciled on page 86.	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 78 and is reconciled on page 86.	Expresses a relationship between the investment return and the associated opening and closing assets adjusted for portfolio hedging instruments.
Net acquisition ratio	Other directly attributable expenses	Net acquisition ratio is defined in the glossary on page 78 and reconciled in Appendix B on pages 88 to 91.	Expresses acquisition costs in relation to net insurance contract revenue.
Net expense ratio	Other directly attributable expenses	Net expense ratio is defined in the glossary on page 78 and reconciled in Appendix B on page 70.	Expresses underwriting and policy expenses in relation to net insurance revenue. Note that restructuring and one-off costs are not considered as underwriting costs and are not included in expense ratio calculations.
Net insurance claims ratio	Net insurance claims	Net expense ratio is defined in the glossary on page 78 and reconciled in Appendix B on page 70.	Expresses claims performance in relation to net insurance revenue.
Net insurance margin ("NIM")	Insurance service result	Net insurance margin is defined in the glossary on page 79 and reconciled in Appendix B on pages 88 to 91.	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	Insurance service result	Net insurance margin and normalised net insurance margin are defined in the glossary on page 78 and reconciled in Appendix B on pages 88 to 91.	This is a measure of underwriting profitability excluding the variances of actual weather from our assumptions and 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.

Group APM	Closest equivalent IFRS measure	Definition and/or reconciliation	Rationale for APM
Ongoing operations (see also brokered commercial business and run-off partnerships)	Multiple - rationale for APM	Ongoing operations, brokered commercial business and run-off partnerships are defined in the glossary on page 79 and reconciled in Appendix B on pages 88 to 91.	As noted in the Acting CEO and CFO reviews, the Group has announced the sale of its brokered commercial business and 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 these businesses 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.
Operating earnings/(loss) per share	Diluted earnings per share	Operating earnings/(loss) per share is defined in the glossary on page 79 and reconciled on page 87.	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 79 and reconciled in Appendix B on pages 88 to 91.	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 79 and is reconciled on page 87.	This shows performance against a measure of equity that is more easily comparable to that of other companies.
Other operating expenses	Other directly attributable expenses	Operating expenses are defined in the glossary on page 79 and reconciled in Appendix B on page 49.	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 80 and is reconciled on page 87.	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 80 and reconciled in note 11 on page 56.	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[2]	FY 2023 £m	FY 2022 £m restated[3]
Investment income	5	**187.9**	124.9
Investment fees	6	**(9.3)**	(9.5)
Realised and unrealised gains/(losses)	6	**124.4**	(342.5)
Total investment return	5	**303.0**	(227.1)
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		**277.1**	278.5
Closing financial investments	16	**3,691.6**	3,696.4
Closing cash and cash equivalents[4]	17	**1,530.4**	1,003.6
Closing borrowings	17	**(82.4)**	(65.2)
Closing derivatives asset[5]		**12.4**	1.6
Closing investment holdings		**5,429.1**	4,914.9
Average investment holdings[6]		**5,172.0**	5,386.5
Investment income yield[1]		**3.5%**	2.1%
Investment return yield[1]		**5.9%**	(4.2)%

Notes:
1. See glossary on pages 78 and 79 for definitions.
2. See notes to the consolidated financial statements.
3. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
4. Excludes funds withheld asset held in association with quota share reinsurance contracts that have funds withheld features.
5. See footnote 23 on page 23 (Investment holdings table).
6. Mean average of opening and closing balances.

Operating return on tangible equity[1]

	2023 £m	2022 £m restated[2]
Operating loss - ongoing operations	**(189.5)**	(6.4)
Other finance costs	**(14.5)**	(20.4)
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Adjusted operating loss - ongoing operations before tax	**(220.6)**	(43.4)
Tax credit (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	**51.8**	8.2
Adjusted operating loss - ongoing operations after tax	**(168.8)**	(35.2)
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	**2,058.2**	1,845.3
Closing goodwill and other intangible assets	**(818.6)**	(822.2)
Closing shareholders' tangible equity	**1,239.6**	1,023.1
Average shareholders' tangible equity[3]	**1,131.4**	1,325.6
Operating return on tangible equity	**(14.9%)**	(2.7%)

Notes:
1. See glossary on page 79 for definitions.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
3. Mean average of opening and closing balances.

Operating loss per share

	2023 £m	2022 £m
Operating loss - ongoing operations	**(189.5)**	(6.4)
Other finance costs	**(14.5)**	(20.4)
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
Adjusted operating loss - ongoing operations before tax	**(220.6)**	(43.4)
Tax credit (2023 UK standard tax rate of 23.5%, 2022 UK standard tax rate of 19.0%)	**51.8**	8.2
Adjusted loss for the year attributable to the owners of the Company	**(168.8)**	(35.2)
Weighted average total shares (number of Ordinary Shares (millions))	**1,311.4**	1,317.3
Weighted average of Share Trust owned shares (millions)	**(12.4)**	(13.0)
Weighted average number of Ordinary Shares in issue (millions)	**1,299.0**	1,304.3
Effect of dilutive potential of share options and contingently issuable shares (millions)	**17.3**	—
Weighted average number of Ordinary Shares for the purpose of operating earnings per share (millions)	**1,316.3**	1,304.3
Operating loss per share	**(12.8)**	(2.7)

Notes:

1. See glossary on page 79 for definitions.

Insurance and reinsurance finance expenses[1]

	2023 £m	2022 £m
Insurance finance expense from insurance contracts issued:		
Unwind of discounting of claims	**(189.8)**	(87.2)
Of which:		
Ongoing operations in operating profit	**(163.8)**	(75.8)
Brokered commercial business	**(24.4)**	(11.0)
Run-off partnerships	**(1.6)**	(0.4)
Effect of change in yield curve	**(4.0)**	189.6
Insurance finance expense from insurance contracts issued	**(193.8)**	102.4
Reinsurance finance expense from insurance contracts issued:		
Unwind of discounting of claims	**49.5**	27.4
Of which:		
Ongoing operations in operating profit	**45.1**	25.4
Brokered commercial business	**4.3**	2.0
Run-off partnerships	**0.1**	—
Effect of change in yield curve	**(21.5)**	(128.9)
Reinsurance finance expense from insurance contracts issued	**28.0**	(101.5)
Net insurance finance expense:		
Unwind of discounting of claims	**(140.3)**	(59.8)
Of which:		
Ongoing operations in operating profit	**(118.7)**	(50.4)
Brokered commercial business	**(20.1)**	(9.0)
Run-off partnerships	**(1.5)**	(0.4)
Effect of change in yield curve	**(25.5)**	60.7
Net insurance finance expense	**(165.8)**	0.9

Notes:

1. See glossary on page 79 for definitions.

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Management view statement of profit or loss – year ended 31 December 2023

The table below analyses the Group's management view results by reportable segment for the year ended 31 December 2023.

	Notes	Motor £m	Home £m	RoPL[1,2] £m	Commercial £m	**Total Group – ongoing operations £m**	Brokered commercial business £m	Run-off partnerships[1] £m	**Total Group £m**
Gross written premium and associated fees	3	2,047.8	551.5	265.7	241.0	**3,106.0**	665.8	150.1	**3,921.9**
Instalment income		66.1	16.0	2.5	6.3	**90.9**	1.9	–	**92.8**
Movement in liability for remaining coverage		(308.5)	(27.8)	4.7	(12.4)	**(344.0)**	(66.9)	(2.1)	**(413.0)**
Insurance revenue	3	1,805.4	539.7	272.9	234.9	**2,852.9**	600.8	148.0	**3,601.7**
Expenses from reinsurance contracts held	3	(240.5)	(36.1)	(3.7)	(25.1)	**(305.4)**	(163.4)	(1.4)	**(470.2)**
Net insurance revenue		1,564.9	503.6	269.2	209.8	**2,547.5**	437.4	146.6	**3,131.5**
Incurred claims - including losses from onerous contracts and other directly attributable claims income		(1,743.5)	(337.7)	(155.7)	(126.7)	**(2,363.6)**	(356.8)	(153.2)	**(2,873.6)**
Amounts recoverable from reinsurers	3	248.7	24.0	2.3	5.2	**280.2**	140.8	2.4	**423.4**
Net insurance claims		(1,494.8)	(313.7)	(153.4)	(121.5)	**(2,083.4)**	(216.0)	(150.8)	**(2,450.2)**
Of which:									
Prior-year reserves development		(138.4)	8.9	(1.2)	(15.0)	**(145.7)**	32.2	(10.6)	**(124.1)**
Acquisition costs		(89.6)	(42.3)	(12.4)	(29.5)	**(173.8)**	(116.3)	(2.2)	**(292.3)**
Operating expenses		(312.1)	(97.4)	(61.4)	(31.2)	**(502.1)**	(91.2)	(22.3)	**(615.6)**
Other directly attributable expenses	3	(401.7)	(139.7)	(73.8)	(60.7)	**(675.9)**	(207.5)	(24.5)	**(907.9)**
Insurance service result	3	(331.6)	50.2	42.0	27.6	**(211.8)**	13.9	(28.7)	**(226.6)**
Investment income		107.7	21.2	5.9	7.0	**141.8**	35.2	1.6	**178.6**
Unwind of discounting of claims		(94.3)	(16.3)	(2.4)	(5.7)	**(118.7)**	(20.1)	(1.5)	**(140.3)**
Other operating income and expenses	3	(1.4)	(2.7)	2.5	0.8	**(0.8)**	(1.4)	(0.9)	**(3.1)**
Operating (loss)/profit		(319.6)	52.4	48.0	29.7	**(189.5)**	27.6	(29.5)	**(191.4)**
Net FV gains/(losses)[2]	5								**124.4**
Effect of change in yield curve									**(25.5)**
Restructuring and one-off costs[2]	3								**(59.5)**
Other finance costs	7								**(14.5)**
Gain on disposal of business									**443.9**
Profit before tax									**277.4**

Key performance indicators – year ended 31 December 2023

	Motor	Home	RoPL[1,2]	Commercial	**Total Group – ongoing operations**	**Total Group**
Net insurance margin ("NIM")[2]	**(21.1%)**	**10.0%**	**15.6%**	**13.1%**	**(8.3%)**	**(7.2%)**
Combined operating ratio[2]	121.1%	90.0%	84.4%	86.9%	**108.3%**	**107.2%**
Net expense ratio[2]	19.9%	19.3%	22.8%	14.9%	**19.7%**	**19.7%**
Net acquisition costs ratio[2]	5.7%	8.4%	4.6%	14.1%	**6.8%**	**9.3%**
Net insurance claims ratio[2]	95.5%	62.3%	57.0%	57.9%	**81.8%**	**78.2%**
– current-year attritional[2]	86.7%	59.2%	56.6%	49.8%	**75.1%**	**73.3%**
– prior-year reserves development	8.8%	(1.8%)	0.4%	7.1%	**5.7%**	**4.0%**
– major weather events	N/A	4.9%	N/A	1.0%	**1.0%**	**0.9%**
Effect of weather						
Net insurance claims ratio[2]	N/A	(5.8%)	N/A	(1.7%)	**(1.3%)**	**(1.6%)**
Net acquisition ratio[2]	N/A	0.0%	N/A	0.0%	**0.0%**	**0.0%**
Net insurance margin normalised for weather[2]	**N/A**	**4.2%**	**N/A**	**11.4%**	**(9.6%)**	**(8.8%)**

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Additional data to support key performance indicators – year ended 31 December 2023

	Motor	Home	RoPL[1,2]	Commercial	**Total Group - ongoing operations[1]**	**Total Group**
	£m	£m	£m	£m	**£m**	**£m**
Net insurance claims	**(1,494.8)**	**(313.7)**	**(153.4)**	**(121.5)**	**(2,083.4)**	**(2,450.2)**
Attritional net insurance claims	(1,356.4)	(297.9)	(152.2)	(104.5)	**(1,911.0)**	**(2,297.9)**
Prior-year reserves development	(138.4)	8.9	(1.2)	(15.0)	**(145.7)**	**(124.1)**
Major weather events	N/A	(24.7)	N/A	(2.0)	**(26.7)**	**(28.2)**

Normalised operating loss[1] – year ended 31 December 2023

	Total Group - ongoing operations[1]
	£m
Operating loss	**(189.5)**
Effect of:	
Normalised weather - claims	**(32.7)**
Normalised weather - profit share	**–**
Normalised operating loss	**(222.2)**
Prior-year adjustments	
Prior-year reserves development	**(145.7)**
Prior-year normalised operating loss	**(145.7)**
Current-year normalised operating loss	**(76.5)**
Current-year normalised operating loss ratio	**34%**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
2. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Management view statement of profit or loss – 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]).

	Notes	Motor	Home	RoPL[1 2]	Commercial	Total Group - ongoing operations	Brokered commercial business	Run-off partnerships[1]	Total Group
		£m	£m	£m	£m	£m		£m	£m
Gross written premium and associated fees	3	1,432.7	518.1	273.9	218.9	2,443.6	530.4	124.4	3,098.4
Instalment income		65.5	16.9	2.8	5.9	91.1	1.6	—	92.7
Movement in liability for remaining coverage		57.1	25.7	5.4	(13.0)	75.2	(35.6)	(1.6)	38.0
Insurance revenue	3	1,555.3	560.7	282.1	211.8	2,609.9	496.4	122.8	3,229.1
Expenses from reinsurance contracts held	3	(77.2)	(26.5)	(2.3)	(22.1)	(128.1)	(36.9)	(0.7)	(165.7)
Net insurance revenue		1,478.1	534.2	279.8	189.7	2,481.8	459.5	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)	(125.1)	(1,947.4)	(217.6)	(109.5)	(2,274.5)
Amounts recoverable from/(payable to) reinsurers	3	87.4	3.1	(0.7)	(1.8)	88.0	8.4	—	96.4
Net insurance claims		(1,176.3)	(410.0)	(146.2)	(126.9)	(1,859.4)	(209.2)	(109.5)	(2,178.1)
Of which:									
Prior-year reserves development		4.3	17.0	4.6	9.5	35.4	38.6	23.8	97.8
Acquisition costs		(82.4)	(33.4)	(22.0)	(36.0)	(173.8)	(121.5)	(2.2)	(297.5)
Operating expenses		(290.1)	(94.3)	(55.9)	(31.8)	(472.1)	(80.4)	(21.0)	(573.5)
Other directly attributable expenses	3	(372.5)	(127.7)	(77.9)	(67.8)	(645.9)	(201.9)	(23.2)	(871.0)
Insurance service result	3	(70.7)	(3.5)	55.7	(5.0)	(23.5)	48.4	(10.6)	14.3
Investment income		72.7	13.8	3.5	4.1	94.1	20.4	0.9	115.4
Unwind of discounting of claims	3	(38.5)	(7.4)	(2.0)	(2.5)	(50.4)	(9.0)	(0.4)	(59.8)
Other operating income and expenses		(28.3)	(2.0)	2.9	0.8	(26.6)	3.1	(0.7)	(24.2)
Operating (loss)/profit		(64.8)	0.9	60.1	(2.6)	(6.4)	62.9	(10.8)	45.7
Net FV gains/(losses)[3]	5								(342.5)
Effect of change in yield curve									60.7
Restructuring and one-off costs[3]	3								(45.3)
Other finance costs	7								(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")[3]	(4.8%)	(0.8%)	19.8%	(2.7%)	(0.9%)	0.5%
Combined operating ratio[3]	104.8%	100.8%	80.2%	102.7%	100.9%	99.5%
Net expense ratio[3]	19.6%	17.7%	20.0%	16.8%	19.0%	18.7%
Net acquisition costs ratio[3]	5.6%	6.3%	7.9%	19.0%	7.0%	9.7%
Net insurance claims ratio[3]	79.6%	76.8%	52.3%	66.9%	74.9%	71.1%
– current-year attritional[3]	79.9%	57.7%	53.9%	69.3%	71.3%	69.4%
– prior-year reserves development	(0.3%)	(3.2%)	(1.6%)	(5.0%)	(1.4%)	(3.2%)
– major weather events	N/A	22.3%	N/A	2.6%	5.0%	4.9%
Effect of weather						
Net insurance claims ratio[3]	N/A	12.6%	N/A	0.3%	2.8%	2.5%
Net acquisition ratio[3]	N/A	(0.8%)	N/A	0.0%	(0.2%)	(0.1%)
Net insurance margin normalised for weather[3]	N/A	11.0%	N/A	(2.4%)	1.7%	2.9%

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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)	(126.9)	(1,859.4)	(2,178.1)
Attritional net insurance claims	(1,180.6)	(307.9)	(150.8)	(131.4)	(1,770.7)	(2,125.4)
Prior-year reserves development	4.3	17.0	4.6	9.5	35.4	97.8
Major weather events	N/A	(119.1)	N/A	(5.0)	(124.1)	(150.5)

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

	Total Group - ongoing operations[2]
	£m
Operating loss	(6.4)
Effect of:	
Ogden discount rate	—
Normalised weather - claims	68.0
Normalised weather - profit share	(4.3)
Normalised operating profit	57.3
Prior-year adjustments	
Prior-year reserves development	35.4
Ogden discount rate	—
Prior-year normalised operating profit	35.4
Current-year normalised operating profit	21.9
Current-year normalised operating profit ratio	38%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
3. See glossary on page 79 for definitions.

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Insurance and reinsurance contract assets and liabilities - claims development tables (discounted PPO basis)

The claims development tables disclosed in note 15.5 have been represented below on a discounted PPO basis, this is more in line with how the Group manages its insurance and reinsurance contract assets and liabilities.

Gross insurance liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Estimate of ultimate gross claims costs:										
At end of accident year	2,066.5	2,124.8	2,178.0	2,280.7	2,059.9	1,767.3	1,905.5	2,252.1	2,721.5	
One year later	(35.1)	(78.5)	(118.2)	(92.3)	(57.3)	(66.4)	(11.1)	157.9		
Two years later	(113.2)	(52.7)	(93.7)	(38.8)	(37.5)	(28.7)	(29.9)			
Three years later	(57.2)	(80.4)	(32.1)	(3.4)	(8.1)	36.7				
Four years later	(20.5)	(39.8)	(18.2)	4.1	15.0					
Five years later	(16.5)	(12.0)	(1.2)	20.9						
Six years later	5.3	(18.6)	11.0							
Seven years later	(5.9)	8.6								
Eight years later	(16.5)									
Current estimate of cumulative claims	1,806.9	1,851.4	1,925.6	2,171.2	1,972.0	1,708.9	1,864.5	2,410.0	2,721.5	
Cumulative payments to date	(1,740.9)	(1,797.3)	(1,849.9)	(1,993.3)	(1,759.5)	(1,414.3)	(1,474.9)	(1,806.2)	(1,336.4)	
Gross liability recognised in the statement of financial position	**66.0**	**54.1**	**75.7**	**177.9**	**212.5**	**294.6**	**389.6**	**603.8**	**1,385.1**	**3,259.3**
2014 and prior										**688.2**
Claims handling provision										**109.6**
Adjustment for non-financial risk										**289.3**
Effect of discounting										**(322.6)**
Other Liabilities for incurred claims										**57.1**
Total										**4,080.9**

Net insurance contract liabilities

Accident year	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Estimate of ultimate net claims costs:										
At end of accident year	1,912.3	1,931.8	2,009.2	2,137.8	1,921.4	1,622.7	1,761.1	2,180.7	2,237.7	
One year later	(75.5)	(30.3)	(95.1)	(80.1)	(36.3)	(49.2)	(1.5)	170.4		
Two years later	(61.9)	(46.7)	(60.2)	(20.0)	(36.9)	(42.6)	(12.6)			
Three years later	(29.2)	(42.9)	(17.2)	(18.2)	(7.7)	48.3				
Four years later	(21.0)	(14.8)	(26.8)	3.5	9.9					
Five years later	(22.0)	(8.0)	(10.2)	20.9						
Six years later	5.0	(13.2)	7.9							
Seven years later	(5.2)	(4.9)								
Eight years later	(7.4)									
Current estimate of cumulative claims	1,695.1	1,771.0	1,807.6	2,043.9	1,850.4	1,579.2	1,747.0	2,351.1	2,237.7	
Cumulative payments to date	(1,671.1)	(1,746.8)	(1,765.8)	(1,945.7)	(1,718.7)	(1,375.2)	(1,442.9)	(1,804.8)	(1,088.6)	
Gross liability recognised in the statement of financial position	**24.0**	**24.2**	**41.8**	**98.2**	**131.7**	**204.0**	**304.1**	**546.3**	**1,149.1**	**2,523.4**
2014 and prior										**442.0**
Claims handling provision										**91.4**
Adjustment for non-financial risk										**158.7**
Effect of discounting										**(305.9)**
Other Liabilities for incurred claims										**(174.7)**
Total										**2,734.9**

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Operating expenses - ongoing operations[1]

	FY 2023			FY 2022 (restated)[3]		
	Insurance service result	**Other expenses (note 7)**	**Total expenses**	**Insurance service result**	**Other expenses (note 6)**	**Total expenses**
	£m	**£m**	**£m**	£m	£m	£m
Commission expenses	**(111.1)**	**N/A**	**(111.1)**	(95.9)	N/A	(95.9)
Marketing	**(62.7)**	**N/A**	**(62.7)**	(77.9)	N/A	(77.9)
Acquisition expenses	**(173.8)**	**N/A**	**(173.8)**	(173.8)	N/A	(173.8)
Staff costs[3]	**(194.6)**	**(5.9)**	**(200.5)**	(188.6)	(6.3)	(194.9)
IT and other operating expenses[3,4]	**(102.9)**	**(15.1)**	**(118.0)**	(85.6)	(26.6)	(112.2)
Insurance levies	**(81.2)**	**N/A**	**(81.2)**	(83.0)	N/A	(83.0)
Depreciation, amortisation and impairment of intangible and fixed assets[5]	**(123.4)**	**(1.2)**	**(124.6)**	(114.9)	(0.8)	(115.7)
Operating expenses	**(502.1)**	**(22.2)**	**(524.3)**	(472.1)	(33.7)	(505.8)
Total expenses - ongoing operations	**(675.9)**	**(22.2)**	**(698.1)**	(645.9)	(33.7)	(679.6)
Total expenses - brokered commercial	**(207.5)**	**(1.8)**	**(209.3)**	(201.9)	1.9	(200.0)
Total expenses - run-off partnerships	**(24.5)**	**(0.9)**	**(25.4)**	(23.2)	(0.7)	(23.9)
Restructuring and one off costs	**N/A**	**N/A**	**(59.5)**	N/A	N/A	(45.3)
Total expenses	**(907.9)**	**(24.9)**	**(992.3)**	(871.0)	(32.5)	(948.8)
Net acquisition ratio[6] - ongoing operations	**6.8%**			7.0%		
Net acquisition ratio[6] - total Group	**9.3%**			9.7%		
Net expense ratio[6] - ongoing operations	**19.7%**			19.0%		
Net expense ratio[6] - total Group	**19.7%**			18.7%		

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 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 1 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 year ended 31 December 2023, there were no impairment charges which relate solely to own occupied freehold property (2022: no impairments).
6. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.

Motor and Home average premium (£)

£	**FY 2023**	FY 2022	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023	Q4 2022
New business	**551**	486	**594**	588	532	478	474
Renewal	**441**	333	**513**	480	412	373	362
Motor direct own brands[1]	**470**	368	**537**	507	445	401	392
New business	**206**	209	**212**	214	204	188	201
Renewal	**249**	217	**259**	257	249	230	226
Home direct own brands	**242**	216	**249**	250	243	224	223

Note:

1. Excluding the By Miles brand.

APPENDIX B – MANAGEMENT VIEW INCOME STATEMENTS, CLAIMS DEVELOPMENT TABLES, EXPENSES, AVERAGE PREMIUMS, GROSS WRITTEN PREMIUM AND ASSOCIATED FEES AND IN-FORCE POLICIES

Gross written premium and associated fees[1]

At	**H2 2023** £m	H2 2022 £m	**FY 2023** £m	FY 2022 £m
Direct own brands	**831.5**	709.7	**1,575.7**	1,398.5
Partnerships	**457.6**	16.2	**472.1**	34.2
Motor	**1,289.1**	725.9	**2,047.8**	1,432.7
Direct own brands	**225.3**	199.4	**408.8**	381.5
Partnerships	**73.5**	68.3	**142.7**	136.6
Home	**298.8**	267.7	**551.5**	518.1
Rescue - ongoing operations	**70.1**	73.4	**137.3**	143.7
Pet	**32.4**	35.1	**66.5**	70.8
Other personal lines - ongoing operations	**32.2**	29.9	**61.9**	59.4
Rescue and other personal lines - ongoing operations	**134.7**	138.4	**265.7**	273.9
Of which: Green Flag direct	**44.2**	47.7	**85.1**	88.2
Commercial direct own brands	**121.8**	112.7	**241.0**	218.9
Total gross written premium and associated fees - ongoing operations	**1,844.4**	1,244.7	**3,106.0**	2,443.6
Brokered commercial insurance	**312.2**	258.8	**665.8**	530.4
Run-off partnerships	**77.8**	71.8	**150.1**	124.4
Total gross written premium and associated fees	**2,234.4**	1,575.3	**3,921.9**	3,098.4

In-force policies (thousands)

At	**31 Dec 2023**	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
Direct own brands[1]	**3,373**	3,441	3,607	3,669	3,756
Partnerships[2,3]	**808**	795	66	72	80
Motor	**4,181**	4,236	3,673	3,741	3,836
Direct own brands[1]	**1,706**	1,686	1,705	1,731	1,732
Partnerships	**738**	748	759	765	769
Home	**2,444**	2,434	2,464	2,496	2,501
Rescue - ongoing[4]	**1,965**	2,000	2,062	2,114	2,185
Pet	**112**	116	121	125	128
Other personal lines - ongoing operations[4]	**95**	80	106	109	111
Rescue and other personal lines - ongoing operations[4]	**2,172**	2,196	2,289	2,348	2,424
Of which: Green Flag Direct	**1,048**	1,062	1,093	1,073	1,106
Commercial direct own brands[1,4,5]	**645**	652	645	643	636
Total in-force policies - ongoing operations[4]	**9,442**	9,518	9,071	9,228	9,397
Brokered commercial insurance	**286**	291	293	287	277
Run-off partnerships[4]	**2,224**	2,221	2,199	2,187	2,188
Total in-force policies[5]	**11,952**	12,030	11,563	11,702	11,862

Notes:

1. Direct own brands include in-force policies for Home and Motor under the Direct Line, Churchill, Darwin, Privilege and By Miles brands and Commercial policies under the Direct Line for Business and Churchill brands.
2. Motor partnerships includes the Motability partnership, which has an initial term of 7 months from 1 September 2023. Subsequently, Motability premiums are repriced twice a year on 1 April and 1 October with gross written premium recognised twice a year on the same dates. As the Motability contract is a fleet contract, Motability customer numbers are used to allow a more representative presentation of the Group's in-force policies.
3. As stated in footnote 1, above, the Motability partnership started on 1 September 2023, with no comparatives available resulting in significant distortion in comparatives for Motor partnerships as a whole.
4. Ongoing operations – the Group's ongoing operations result exclude the results of the brokered commercial insurance business, that the Group in 2023 entered into an agreement to sell, and the Rescue and other personal lines partnerships that the Group first excluded from its 2022 results. Relevant prior-year data has been restated accordingly. See glossary on pages 78 to 80 for definitions and appendix A – Alternative Performance Measures on pages 84 to 87 for reconciliation to financial statement line items.
5. 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 erroneously included in the reported amounts.

ADDITIONAL INFORMATION

We confirm that to the best of our knowledge:

1. the financial statements within the Annual Report & Accounts, from which the financial information within these Preliminary Results have been extracted, are prepared in accordance with the International Financial Reporting Standards, issued by the IASB as adopted by the UK and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
2. the management report within these Preliminary Results includes a fair review of the development and performance of the business and the position of the Group, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

JON GREENWOOD
OUTGOING ACTING CHIEF EXECUTIVE OFFICER

21 March 2024

NEIL MANSER
CHIEF FINANCIAL OFFICER

21 March 2024

LEI: 213800FF2R23ALJQOP04

APPENDIX C

PART A

QUANTIFIED FINANCIAL BENEFITS STATEMENT

The section of this announcement entitled "Reduce our cost base" contains a "quantified financial benefits statement" for the purposes of Rule 28 of the Takeover Code, which has been reported on in accordance with the requirements of the Takeover Code in the following form (the "**Quantified Financial Benefits Statement**"):

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

Our marketing spend can be reduced further and we will build out customer self-service options by leveraging investments the Group has already made, for example the digital Motor claims hub and the Caha! App that we launched in 2023. Across all these levers, we have identified a series of initiatives that are expected to deliver at least £100 million of run-rate annualised cost savings by the end of 2025[1]. The run-rate annualised cost savings have been considered in the context of a total addressable cost base of £849 million in 2023.

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

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

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

In realising these cost savings of at least £100 million, by the end of 2025 on a run-rate annualised basis[1.] the Group is expected to deliver an expense ratio that is more in line with its comparable peer group.

Bases of belief and sources of information

The Group's total reported cost base in 2023 was £992 million, of which £849 million has been assumed as the addressable cost base for the cost savings plan, which excludes commission costs, Motability and By Miles, and Commercial costs related to the brokered commercial business, the sale of which was announced in September 2023.

The total addressable cost base excludes capital expenditure.

The cost savings estimates shown above are based on savings compared to the Group's cost base for the ongoing business for the year to 31 December 2023.

The estimated cost savings have been prepared based on internal information on costs by function and type and detailed analysis of the future operating model. The estimates have been prepared by functional teams, and have included input from external consultants, with approval by the Group's Executive Committee. Key sources of information used to develop these estimates include financial results for the year ended 31 December 2023.

In arriving at the Quantified Financial Benefits Statement, the Directors of Direct Line Group have assumed that:

– there will be no change in the ownership or control of the Group;
– there will be no material change to macroeconomic, political or legal conditions in the markets in which the Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
– there will be no material change in regulatory requirements.

Reporting

As required by Rule 28.1(a) of the Code, Deloitte LLP ("**Deloitte**"), as reporting accountants to Direct Line Group, have provided a report (set out in Part B of Appendix C) stating that, in their opinion, the Quantified Financial Benefits Statement has been properly compiled on the basis stated. In addition, Goldman Sachs International ("Goldman Sachs"), Morgan Stanley and Co. International plc ("**Morgan Stanley**"), RBC Europe Limited ("**RBC**"), Robey Warshaw LLP ("**Robey Warshaw**") and J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) as financial advisers to Direct Line Group have provided a report (set out in Part C of Appendix C) stating that, in their opinion, and subject to the terms of the report, the Quantified Financial Benefits Statement, for which the Directors of the Group are responsible, has been prepared with due care and consideration.

Copies of these reports are included in the next parts of this Appendix below. Each of Deloitte, Goldman Sachs, Morgan Stanley, RBC, Robey Warshaw and J.P. Morgan Cazenove have given and not withdrawn their consent to the publication of their reports in the form and context in which they are included.

Notes:

The assessment and quantification of the potential cost savings relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the potential cost savings may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. As a result, and given the fact that the changes relate to the future, the resulting cost savings may be materially greater or less than those estimated. No statement in the Quantified Financial Benefits Statement or in this announcement generally should be construed as a profit forecast or interpreted to mean that Direct Line Group's earnings in the year to 31 December 2024, or any subsequent period, would necessarily match or be greater than or be less than those of Direct Line Group for the relevant preceding financial period or any other period.

APPENDIX C

PART B

ACCOUNTANT'S REPORT ON QUANTIFIED FINANCIAL BENEFITS STATEMENT

The Board of Directors
on behalf of Direct Line Insurance Group plc
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Goldman Sachs International
Plumtree Court
25 Shoe Lane
London
EC4A 4AU

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London
E14 4QA

RBC Europe Limited
100 Bishopsgate
London
EC2N 4AA

Robey Warshaw LLP
9 Grosvenor Square
London
W1K 5AE

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

21 March 2024

Dear Sirs/Madams

POSSIBLE OFFER FOR DIRECT LINE INSURANCE GROUP PLC (the "Target") BY AGEAS SA/NV (the "Offeror")

We report on the statement made by the directors of the Target (the "**Directors**") of estimated cost savings set out in Part A of Appendix C of the preliminary results announcement (the "Announcement") issued by the Target (the "Quantified Financial Benefits Statement" or the "**Statement**").

Opinion

In our opinion, the Quantified Financial Benefits Statement has been properly compiled on the basis stated.

The Statement has been made in the context of the disclosures within Part A of Appendix C setting out, inter alia, the basis of the Directors' belief (identifying the principal assumptions and sources of information) supporting the Statement and their analysis, explanation and quantification of the constituent elements.

APPENDIX C

Responsibilities

It is the responsibility of the Directors to prepare the Statement in accordance with Rule 28 of the City Code on Takeovers and Mergers (the "**Takeover Code**").

It is our responsibility to form our opinion, as required by Rule 28.1(a) of the Takeover Code, as to whether the Statement has been properly compiled on the basis stated and to report that opinion to you.

This report is given solely for the purposes of complying with Rule 28.1(a)(i) of Takeover Code and for no other purpose.

Therefore, to the fullest extent permitted by law we do not assume any other responsibility to any person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 23.2 of the Takeover Code, consenting to its inclusion in the Announcement.

In particular, we assume no responsibility in respect of this report to the Offeror or any person connected to, or acting in concert with, the Offeror or to any other person who is seeking or may in future seek to acquire control of the Target (an "**Alternative Offeror**") or to any other person connected to, or acting in concert with, an Alternative Offeror.

Basis of preparation of the Statement

The Statement has been prepared on the basis set out in Part A of Appendix C to the Announcement.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom ("**FRC**").

We are independent of the Target in accordance with the FRC's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have discussed the Statement, together with the underlying plans (relevant bases of belief/including sources of information and assumptions), with the Directors and their financial advisers Goldman Sachs International, Morgan Stanley & Co. International plc, RBC Europe Limited, Robey Warshaw LLP and J.P. Morgan Securities plc. Our work did not involve any independent examination of any of the financial or other information underlying the Statement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Statement has been properly compiled on the basis stated.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We have not consented to the inclusion of this report and our opinion in any registration statement filed with the SEC under the US Securities Act of 1933 (either directly or by incorporation by reference) or in any offering document enabling an offering of securities in the United States (whether under Rule 144A or otherwise). We therefore accept no responsibility to, and deny any liability to, any person using this report and opinion in connection with any offering of securities inside the United States of America or who makes a claim on the basis they had acted in reliance on the protections afforded by United States of America law and regulation.

We do not express any opinion as to the achievability of the benefits identified by the Directors in the Statement.

Since the Statement and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we express no opinion as to whether the actual benefits achieved will correspond to those anticipated in the Statement and the differences may be material.

Yours faithfully

Deloitte LLP

Note:

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients.

APPENDIX C

PART C

REPORT FROM GOLDMAN SACHS INTERNATIONAL, MORGAN STANLEY & CO. INTERNATIONAL PLC, RBC EUROPE LIMITED, ROBEY WARSHAW LLP AND J.P. MORGAN SECURITIES PLC

The Board of Directors

Direct Line Insurance Group plc (the "**Company**")

Churchill Court

Westmoreland Road

Bromley

BR1 1DP

21 March 2024

Dear Sirs/Madams,

We refer to the quantified financial benefits statement, the bases of belief thereof and the notes thereto set out in Part A of Appendix C of the preliminary results announcement (the "**Announcement**") of the Company (the "**Statement**"), for which the board of directors of the Company (the "**Directors**") are solely responsible under Rule 28.3 of the City Code on Takeovers and Mergers (the "**Code**").

We have discussed the Statement (including the assumptions, bases of calculation and sources of information referred to therein), with the Directors and those officers and employees of the Company who have developed the financial forecasts underlying the estimated cost savings. The Statement is subject to uncertainty as described in the Announcement and our work did not involve an independent examination, or verification, of any of the financial or other information underlying the Statement.

We have relied upon the accuracy and completeness of all the financial and other information provided to us by or on behalf of the Company, or otherwise discussed with or reviewed by us, in connection with the Statement, and we have assumed such accuracy and completeness for the purposes of providing this letter.

We do not express any view as to the achievability of the quantified financial benefits, whether on the basis identified by the Directors in the Statement, or otherwise.

We have also reviewed the work carried out by Deloitte LLP ("**Deloitte**") and have discussed with Deloitte its opinion addressed to you and us on this matter and which is set out in Part B of Appendix C to the Announcement.

On the basis of the foregoing, we consider that the Statement, for which the Directors are solely responsible, has been prepared with due care and consideration.

This letter is provided to you solely having regard to the requirements of, and in connection with, Rule 28.1(a)(ii) of the Code and for no other purpose. We accept no responsibility to the Company, its shareholders or to any person other than the Directors in respect of the contents of this letter. We are acting exclusively as financial advisers to the Company and no one else and it was for the purpose of complying with Rule 28.1(a)(ii) of the Code that the Company requested us to prepare this letter relating to the Statement. No person other than the Directors can rely on the contents of, or the work undertaken in connection with, this letter, and to the fullest extent permitted by law, we expressly exclude and disclaim all liability (whether in contract, tort or otherwise) to any other person, in respect of this letter, its contents or the work undertaken in connection with this letter or any of the results or conclusions that may be derived from this letter or any written or oral information provided in connection with this letter, and any such liability is expressly disclaimed except to the extent that such liability cannot be excluded by law.

Yours faithfully,

For and on behalf of

Goldman Sachs International

For and on behalf of

Morgan Stanley & Co. International plc

For and on behalf of

RBC Europe Limited

For and on behalf of

Robey Warshaw LLP

For and on behalf of

J.P. Morgan Securities plc