INTERIM MANAGEMENT REPORT

For the six month period ended 30 June 2023.

RSA Insurance Group Limited (the Company) is incorporated and domiciled in England and Wales. The Company's immediate parent company is 2283485 Alberta Limited. The Company's ultimate parent company and controlling party is Intact Financial Corporation (IFC).

Principal activity

The principal activity of the Company, its subsidiaries and associates (together the Group or RSA) remains the transaction of insurance and related financial services predominantly in the United Kingdom and internationally in Ireland and Europe.

Business review

Comparatives are re-stated following the adoption of IFRS 17 - Insurance Contracts (IFRS 17) on 1 January 2023. Refer to note 4 Adoption of new and revised accounting standards for the impact of the adoption of IFRS 17.

For the six month period ended 30 June 2023, the Group reports a profit before tax of £55m (six month period ended 30 June 2022: £224m).

Profit before tax of £55m consists of £82m underwriting profit (six month period ended 30 June 2022: £86m profit), investment result £79m (six month period ended 30 June 2022: £59m), £7m central costs (six month period ended 30 June 2022: £10m) and (£99m) of other income and charges (six month period ended 30 June 2022: £89m).

On 28 March 2023, the Group announced its exit from the UK personal lines motor insurance market. Profit before tax in the six month period to 30 June 2023 is impacted by the de-recognition of £34m of software assets in relation to this withdrawal. In the six month period ended 30 June 2022, software assets with a net book value of £18m were de-recognised (refer to note 9 Goodwill and intangible assets). In addition, other income and charges includes £26m of acquisition and integration costs (six month period to 30 June 2022: £45m).

Net written premiums for the six month period ended 30 June 2023 are £1,375m (six month period ended 30 June 2022: £1,561m).

Net assets of the Group as at 30 June 2023 are £2,209m (31 December 2022: £2,496m).

On 27 February 2023, the Group announced that the Trustees of its two major defined benefits pension plans had entered into an agreement with Pension Insurance Corporation plc (PIC), a specialist insurer of defined benefit pension plans, to purchase annuity buy-in insurance contracts (the buy-ins) as part of their de-risking strategy. At the transaction date, the plans transferred the majority of their plan assets and an upfront contribution of £481m to PIC. Refer to note 15 Employee future benefits for further information on this transaction.

The Group provides insurance to the Motability Scheme. On 22 July 2021, it was announced that Motability Operations Ltd had decided to move their business to a different insurer. On 24 June 2023, a contract variation was signed to formalise exit arrangements. This has resulted in the reversal of net written premium of £168m. There is no impact on Insurance revenue. The reversal of net written premiums is provided for and consequently has no impact on the movement in earned premium (refer to note 24 Alternative performance measures).

Related party transactions

The Group received capital injections of £480m and £39m during the six month period to 30 June 2023 from 2283485 Alberta Limited (six month period ended 30 June 2022: £294m). The 2023 capital injections funded the pension fund buy-in (refer to note 15 Employee future benefits) and the repurchase of issued debt (refer to note 14 Issued debt) respectively. The Group has not declared a dividend in the period (six month period ended 30 June 2022: nil). Refer to note 23 for further information on all related party transactions.

Key performance indicators (KPIs)

The Group uses both IFRS and non-IFRS financial measures (alternative performance measures, APMs) to assess performance, including common insurance industry metrics.

The KPIs most relevant to the financial performance of the Group are:

- net written premiums[1] £1,375m (2022: £1,561m): premiums incepted in the period, irrespective of whether they have been paid, less the amount shared with reinsurers. The Group targets growth without compromising underwriting performance.
- underwriting result[1] £82m (six month period ended 30 June 2022: £86m), net earned premium and other operating income less net claims and underwriting and policy acquisition costs. The Group aims to provide competitive pricing to customers that delivers a sustainable ongoing underwriting profit for the Group.
- profit before tax £55m (six month period ended 30 June 2022: £224m), net profit generated before taxes have been deducted. This is a key statutory measure of the earnings performance of the Group. The Group seeks to maximise its profit before tax.

[1] Net written premiums and the underwriting result are APMs. Refer to note 24 for reconciliation to the nearest IFRS measure.

Principal risks and uncertainties

The Group continues to assess its principal risks and uncertainties and how these are managed. Any update to the risk management information disclosed in note 6 of the 2022 Annual Report and Accounts is provided in the below notes to the interim condensed consolidated financial statements.

The Group adopted IFRS 17 and IFRS 9 - Financial instruments (IFRS 9) on 1 January 2023. IFRS 17 and IFRS 9 require management to use judgements, estimates and assumptions, further details of which are provided in note 7 Insurance and reinsurance contracts and note 13 Financial risk respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	**(Unaudited) 30 June 2023 £m**	(Unaudited) 31 December 2022 Restated[1] £m	(Unaudited) 1 January 2022 Restated[1] £m
Assets				
Cash and cash equivalents		**295**	362	500
Financial assets	**6**	**5,168**	5,334	5,530
Investment property		**300**	291	371
Reinsurance contract assets	**7**	**1,719**	1,718	1,626
Income taxes receivable		**1**	1	2
Deferred tax assets	**8**	**267**	267	148
Property and equipment		**116**	121	91
Intangible assets	**9**	**308**	307	273
Goodwill	**9**	**23**	24	39
Other assets	**10**	**280**	442	732
Total assets		**8,477**	8,867	9,312
Liabilities		**-**		
Insurance contract liabilities	**7**	**5,697**	5,806	5,599
Financial liabilities related to investments	**11**	**54**	26	58
Income taxes payable		**3**	1	4
Debt outstanding	**14**	**126**	166	165
Other liabilities	**10**	**388**	372	355
Total liabilities		**6,268**	6,371	6,181
Equity				
Equity attributable to shareholders		**2,209**	2,496	2,975
Non-controlling interests		**-**	-	156
Total equity and liabilities		**8,477**	8,867	9,312

[1] Restated for the adoption of IFRS 17. Refer to note 4. Adoption of new and revised accounting standards. Due to this restatement, annual comparative information is unaudited.

The following explanatory notes form an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements were approved on 3 August 2023 by the Board of Directors and are signed on its behalf by:

Ken Anderson

Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2023

	Note	**(Unaudited) 30 June 2023 £m**	(Unaudited) 30 June 2022 Restated[1] £m
Income			
Insurance revenue	**7**	**1,965**	2,098
Insurance service expenses		**(1,719)**	(1,869)
Insurance service result from insurance contracts		**246**	229
Allocation of reinsurance premiums	**7**	**(450)**	(444)
Amounts recoverable from reinsurers		**320**	322
Net expense from reinsurance contracts		**(130)**	(122)
Insurance service result		**116**	107
Net investment income	**17**	**79**	59
Net (losses) gains on investment portfolio	**17**	**(62)**	141
Net investment return		**17**	200
Insurance finance income (expense)	**17**	**28**	(6)
Reinsurance finance expense	**17**	**(5)**	(18)
Net insurance financial result		**23**	(24)
Other net gains		**1**	19
Other income and expenses		**(27)**	(28)
Acquisition, integration and restructuring costs		**(70)**	(45)
Other finance costs		**(5)**	(5)
Profit before tax		**55**	224
Income tax expense	**18**	**(64)**	(32)
(Loss)/profit for the period		**(9)**	192
Attributable to:			
Owners of the Parent Company		**(9)**	197
Non-controlling interests		**-**	(5)
		(9)	192

[1] Restated for the adoption of IFRS 17. Refer to note 4. Adoption of new and revised accounting standards.

The following explanatory notes form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2023

	Note	**(Unaudited) 30 June 2023 £m**	(Unaudited) 30 June 2022 Restated[1] £m
(Loss)/profit for the period		**(9)**	192
Items that may be reclassified to the income statement:			
Exchange (losses) gains of tax on translation of foreign operations		**(3)**	29
Fair value losses on available for sale financial assets net of tax[2]		**-**	(264)
Fair value losses on FVTOCI assets net of tax[3]		**(11)**	-
		(14)	(235)
Items that will not be reclassified to the income statement:			
Pension – remeasurement of defined benefit asset/liability net of tax		**(777)**	32
Total other comprehensive expense for the period		**(791)**	(203)
Total comprehensive expense for the period		**(800)**	(11)
Attributable to:			
Owners of the Parent Company		**(800)**	(22)
Non-controlling interests		**-**	11
		(800)	(11)

[1] Restated for the adoption of IFRS 17. Refer to note 4. Adoption of new and revised accounting standards.

[2] Not applicable for the six month period ended 30 June 2023 as related to IAS 39 Financial instruments. Refer to note 4. Adoption of new and revised accounting standards.

[3] Not applicable for the six month period ended 30 June 2022 as related to IFRS 9. Refer to note 4. Adoption of new and revised accounting standards.

The following explanatory notes form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2023

(Unaudited)

	Ordinary share capital	Ordinary share premium	Preference shares	Tier 1 notes	Revaluation reserves	Foreign currency translation reserve	Retained earnings	Equity attributable to owners of the Parent Company	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 December 2022 (as reported)	**1,563**	**282**	**125**	**-**	**(224)**	**54**	**545**	**2,345**	**-**	**2,345**
Impact of the application of IFRS 17	**-**	**-**	**-**	**-**	**-**	**-**	**151**	**151**	**-**	**151**
Balance at 31 December 2022 (restated)	**1,563**	**282**	**125**	**-**	**(224)**	**54**	**696**	**2,496**	**-**	**2,496**
Impact of the initial application of IFRS 9	**-**	**-**	**-**	**-**	**98**	**-**	**(99)**	**(1)**	**-**	**(1)**
Balance at 1 January 2023	**1,563**	**282**	**125**	**-**	**(126)**	**54**	**597**	**2,495**	**-**	**2,495**
Total comprehensive income										
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**	**(9)**	**-**	**(9)**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(11)**	**(3)**	**(777)**	**(791)**	**-**	**(791)**
	-	**-**	**-**	**-**	**(11)**	**(3)**	**(786)**	**(800)**	**-**	**(800)**
Transactions with owners of the Group										
Contribution and distribution										
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**	**-**	**(5)**
Shares issued for cash	**-**	**519**	**-**	**-**	**-**	**-**	**-**	**519**	**-**	**519**
	-	**519**	**-**	**-**	**-**	**-**	**(5)**	**514**	**-**	**514**
Balance at 30 June 2023	**1,563**	**801**	**125**	**-**	**(137)**	**51**	**(194)**	**2,209**	**-**	**2,209**
Balance at 31 December 2021 (as reported)	1,269	282	125	297	105	53	804	2,935	156	3,091
Impact of the application of IFRS 17	-	-	-	-	-	-	40	40	-	40
Balance at 1 January 2022 (restated)	1,269	282	125	297	105	53	844	2,975	156	3,131
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	197	197	(5)	192
Other comprehensive (expense)/income for the period	-	-	-	-	(263)	12	32	(219)	16	(203)
	-	-	-	-	(263)	12	229	(22)	11	(11)
Transactions with owners of the Group										
Contribution and distribution										
Dividends	-	-	-	-	-	-	(8)	(8)	(2)	(10)
Shares issued for cash	294	-	-	-	-	-	-	294	-	294
Tier 1 note redemption (note 20)	-	-	-	(297)	-	-	22	(275)	-	(275)
	294	-	-	(297)	-	-	14	11	(2)	9
Balance at 30 June 2022 (restated)	1,563	282	125	-	(158)	65	1,087	2,964	165	3,129

The following explanatory notes form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended 30 June

	Note	**(Unaudited) 30 June 2023 £m**	(Unaudited) 30 June 2022 Restated[1] £m
Cash flows from operating activities			
Income before income taxes		55	224
Income tax paid, net		(2)	(2)
Adjustments for non-cash items	**22**	92	(34)
Changes in other operating assets and liabilities	**22**	(678)	(46)
Net cash flows provided by (used in) operating activities		**(533)**	**142**
Cash flows from investing activities			
Proceeds from sale of investments		1,271	911
Purchases of investments		(1,203)	(1,180)
Purchases of intangibles and property and equipment, net		(67)	(55)
Net cash flows provided by (used in) investing activities		**1**	**(324)**
Cash flows from financing activities			
Payment of lease liabilities		(5)	(8)
Redemption of long-term borrowings	**14**	(40)	(275)
Proceeds from issuance of ordinary shares, net	**19**	519	294
Payment of dividends on preferred shares and interest on tier 1 notes		(5)	(8)
Payment of dividends to non-controlling interests		-	(2)
Interest paid		(2)	(1)
Net cash flows provided by financing activities		**467**	**-**
Net decrease in cash and cash equivalents		(64)	(182)
Cash and cash equivalents at beginning of the period, net of held for sale		353	493
Effect of exchange rate changes on cash and cash equivalents		(3)	8
Cash and cash equivalents at end of the period		**286**	**319**
Composition of cash and cash equivalents			
Cash		205	249
Cash equivalents		90	87
Overdrafts		(9)	(17)
Cash and cash equivalents, end of period		**286**	**319**
Other relevant cash flow disclosures – operating activities			
Interest received		84	73
Dividends received		5	7

[1] Restated for the adoption of IFRS 17. Refer to note 4. Adoption of new and revised accounting standards.

The following explanatory notes form an integral part of these interim condensed consolidated financial statements.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Glossary of abbreviations

12mECL	12-month expected credit loss	**HTC**	Held-to-collect
AFS	Available-for-sale	**HTC&S**	Held-to-collect and sell
AOCI	Accumulated other comprehensive income (loss)	**IAS**	International Accounting Standard
CAD	Canadian Dollar, Canada's official currency	**IASB**	International Accounting Standards Board
CPI	Consumer price index	**IFRS**	International Financial Reporting Standards
DB	Defined benefits	**LTECL**	Lifetime expected credit loss
ECL	Expected credit losses	**OCI**	Other comprehensive income
EUR (€)	Currency of the Euro zone countries in Europe	**PAA**	Premium Allocation Approach
FVTOCI	Fair value through other comprehensive income	**RPI**	Retail price index
FVTPL	Fair value through profit or loss	**SPPI**	Solely payments of principal and interest
GBP (£)	British pound sterling, UK's official currency	**UK**	United Kingdom
GMM	General Measurement Model	**USD**	US Dollar, United States official currency

1. Status of the entity

These interim consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's significant operating subsidiaries are as presented in appendix C of the Company's annual consolidated financial statements for the year ended 31 December 2022. The statutory accounts of RSA Insurance Group Limited for the year ended 31 December 2022 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2022 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

The registered office of the Company is Floor 8, 22 Bishopsgate, London, EC3M 3AU, United Kingdom.

2. Basis of presentation

2.1 Statement of compliance

These interim consolidated financial statements and the accompanying notes are prepared in accordance with IAS 34 – Interim Financial Reporting as adopted in the UK. They were authorised for issue in accordance with a resolution of the Board of Directors on 3 August 2023.

2.2 Preparation and presentation of financial statements

These interim consolidated financial statements are condensed financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended 31 December 2022.

Comparative information has been restated due to the adoption of IFRS 17. In addition, certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

The comparative figures for the financial year ended 31 December 2022 are not the Group's statutory accounts for that financial year but are derived from the accounts. Those accounts have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group presents its interim consolidated balance sheets broadly in order of liquidity.

2.3 Seasonality

The personal and commercial insurance business is seasonal in nature. While insurance revenues are generally stable from period to period, insurance service results may vary significantly between reporting periods, driven mainly by weather conditions.

2.4 Foreign currency translation

	Spot rate as at			Average rate for the period	
	30 June 2023	31 December 2022	31 December 2021	**30 June 2023**	30 June 2022
CAD	**1.68**	1.64	1.71	**1.66**	1.65
USD	**1.27**	1.20	1.35	**1.23**	1.30
EUR	**1.17**	1.13	1.19	**1.14**	1.19

2.5 Going concern

The interim condensed consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board have reviewed the Group's ongoing commitments for at least the next twelve months. The Board's assessment included review of the Group's strategic plans and latest forecasts, capital position and liquidity including on demand capital funding arrangements with IFC. The risk profile, both current and emerging, has been considered, as well as the implications for capital. These assessments include sensitivity analysis and stress testing of the forward-looking capital projections, assessing a 1-in-10 year market risk shock and reduction of longer-term underwriting profitability. Key risk indicators demonstrate that the risk appetite is aligned to the available capital. In making their assessment, the Board have reviewed the latest position on business interruption losses and availability of reinsurance to recover incurred claims and there has been no significant change in the estimated ultimate position based on these updates. The Board have considered the impact of events after the balance sheet date, with none identified which could impact the Group's ability to continue as a going concern.

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next twelve months, from both the date of the interim condensed consolidated statement of financial position and the approval of the interim condensed consolidated financial statements.

3. Summary of material accounting policies

The accounting policies applied during the period ended 30 June 2023 are the same as those described and disclosed in note 5 and appendix A of the annual consolidated financial statements for the year ended 31 December 2022 except for the new standards and amendments to existing standards described below:

3.1 Insurance and reinsurance contracts

The Group adopted IFRS 17 on 1 January 2023. It was applied retrospectively as at 1 January 2022 and as a result the comparative information has been restated. Refer to note 4 – Adoption of new accounting standards for the impact on the adoption of IFRS 17.

IFRS 17 requires management to use judgements, estimates and assumptions, further details of which are provided in note 7 – Insurance and reinsurance contracts.

IFRS 17 accounting policies are described below.

a) Classification

Insurance contracts transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Group agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Group determines whether it has significant insurance risks by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

The Group issues insurance contracts in the normal course of business (direct business) and holds reinsurance contracts (ceded business), under which it is compensated by other entities for claims arising from one or more insurance contracts issued by the Group. The Group may acquire insurance and reinsurance contracts through a business combination or transfer of contracts. All references to insurance and reinsurance contracts include contracts issued and acquired by the Group, unless otherwise stated.

b) Separating components from insurance and reinsurance contracts

Insurance and reinsurance contracts are assessed to determine whether they contain components which must be accounted for under an IFRS other than the insurance contract standard. The Group's insurance and reinsurance contracts do not include any components that require separation.

c) Level of aggregation

Insurance and reinsurance contracts are aggregated into portfolios and groups for measurement purposes. Portfolios are comprised of contracts with similar risks which are managed together. The Group divides its direct and ceded business into portfolios. Management uses judgement in considering the main geographic areas, lines of business, distribution channels and legal entities in which it operates as the relevant drivers for establishing its various portfolios. Portfolios are then divided into groups of contracts based on expected profitability. Such groups do not contain contracts issued more than one year apart since they are further subdivided into annual cohorts.

Portfolios of insurance contracts that are assets and those that are liabilities and portfolios of reinsurance contracts that are assets and those that are liabilities are presented separately in the consolidated balance sheet.

d) *Recognition*

Groups of insurance and reinsurance contracts are recognised from the earliest of the following:

i. The beginning of the coverage period (except for proportionate coverage reinsurance that could be recognised at a later date when any underlying insurance contract is initially recognised);
ii. The date that the first payment is due;
iii. The date of acquisition for contracts acquired in a business combination or transfer of contracts; or
iv. The date when facts and circumstances indicate that the group of contracts is potentially onerous.

Groups of contracts are established on initial recognition and their composition is not revised subsequently.

Any premiums received before the recognition of the corresponding group of insurance contracts are recognised as deferred revenues in Other liabilities. When the group of contracts are recognised as per above the premiums received are reclassified to the liability for remaining coverage.

e) *Contract boundary*

The measurement of a group of contracts includes all the future cash flows within the boundary of each contract.

Cash flows are within the boundary of insurance and reinsurance contracts if they arise from substantive rights and obligations that exist during the reporting period in which the Group:

i. Can compel the policyholder to pay the premiums or has a substantive obligation to provide the policyholder with insurance contract services;
ii. Is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive obligation or right ends when:

i. The Group or reinsurer has the practical ability to reassess risks and can set a price or level of benefits that fully reflects those risks;
ii. The reinsurer has a substantive right to terminate the coverage.

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.

f) *Measurement models*

The Group uses different measurement models depending on the type of contract.

Type of contract	Measurement model
All of the Group's insurance and reinsurance contracts except for retroactive reinsurance contracts	PAA
Retroactive reinsurance contracts to cover adverse development of existing claims	GMM

The carrying amount of a group of insurance contracts at the end of each reporting period is comprised of the following:

Component	Description	Relates to
Liability for remaining coverage	The obligation to provide coverage after the reporting period for insured events that have not yet occurred.	Future service
Liability for incurred claims	The obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been recognised, and other incurred insurance expenses.	Past service

Premium Allocation Approach

The Group applies the PAA when measuring the liability for remaining coverage as follows:

	Description
Overview	Simplified measurement model which may be applied to insurance contracts when: i. The coverage period is one year or less; or ii. For contracts longer than one year, and there is no material difference in the liability for remaining coverage between the PAA and the GMM.
Contracts applying this model	All insurance and reinsurance contracts, except in limited circumstances where the GMM is required.

	Description
Initial and subsequent measurement	The liability for remaining coverage includes: i. Premiums received; ii. Minus insurance acquisition cash flows paid net of the amortisation of the insurance acquisition cash flows recognised; iii. Minus amounts recognised as insurance revenue for the services provided; and iv. Loss component for onerous contracts.
Onerous contracts	The Group assumes that no contracts in a portfolio are potentially onerous at initial recognition unless facts and circumstances indicate otherwise. The Group has developed a methodology for identifying indicators of possible onerous contracts, which includes internal management information, forecast information and historic experience (refer to Onerous contracts below).
Other policies	The Group: i. Does not discount the liability for remaining coverage; ii. Allocates insurance acquisition cash flows to related groups and amortise them over the coverage period of those groups.
Reinsurance contracts	Reinsurance contracts are measured on the same basis as insurance contracts.

General Measurement Model

The Group applies the GMM when measuring the liability for remaining coverage as follows:

	Description
Overview	Default model to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. The liability for remaining coverage includes: Fulfilment cash flows which are comprised of: i. discounted estimates of future cash flows; and ii. a risk adjustment for non-financial risk (risk adjustment) which is the compensation required for bearing uncertainty. Contractual service margin, which is the unearned profit that is recognised as services are provided.
Contracts applying this model	A limited number of contracts for retroactive reinsurance contracts to cover adverse development of existing claims, where the Group acts as the reinsurer or is reinsured.

	Description
Initial and subsequent measurement	At initial recognition, unless the group of contracts is onerous, the contractual service margin is measured at an amount that results in no income or expenses arising from: i. initial recognition of fulfilment cash flows; ii. any cash flows arising from the contracts in the group at that date; and iii. any amount arising from the derecognition of assets or liabilities previously recognised for cash flows related to the group. Subsequently, the contractual service margin is adjusted for: i. the effect of any new contracts; ii. interest accreted at the discount rates at initial recognition (locked-in discount rate); iii. changes in fulfilment cash flows relating to future service, except to the extent that such: • increases exceed the contractual service margin, in which case the excess is recognised as a loss in Net income and a loss component is recognised; • decreases are allocated to the loss component, reversing losses previously recognised in Net income; iv. the effect of any currency exchange differences; and v. amounts recognised as insurance revenue for services provided, determined by allocating the contractual service margin over the current and remaining service coverage period. Changes in fulfilment cash flows related to current services are recognised immediately in Net income which include: i. changes in risk adjustment for expired risk; ii. experience adjustments which are the difference between estimated premiums and claims and other insurance service expenses incurred in the period; and iii. past services relate to prior year development.
Onerous contracts	Groups of contracts are assessed as onerous when there is a net outflow of fulfilment cash flows and the contractual service margin is zero (refer to Onerous contracts below).
Other elections	Estimates made in previous interim periods are revised therefore cash flows are measured on a year-to-date basis.
Reinsurance contracts	Reinsurance contracts are measured on the same basis as insurance contracts, except: i. they include an allowance for non-performance risk by the reinsurer which considers collateral; ii. the risk adjustment represents the amount of risk being transferred to the reinsurer; iii. day 1 gains/losses are recognised initially as a contractual service margin and released to Net income as the reinsurer renders services, except for day 1 loss related to events before initial recognition; and iv. changes in fulfilment cash flows are recognised in Net income if changes in the related underlying ceded contracts have been recognised in Net income as well. Otherwise, changes in the fulfilment cash flows adjust the contractual service margin.

Onerous contracts

For onerous contracts, a loss component determined based on estimated fulfilment cash flows is included in the liability for remaining coverage when insurance contracts are issued with a loss recognised immediately in Net income. The loss component is reversed to Net income over the coverage period, therefore offsetting incurred claims. The loss component is measured on a gross basis but may be mitigated by a loss recovery component if the contracts are covered by reinsurance.

The loss-recovery component is calculated by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Group expects to recover from the group of reinsurance contracts. The Group uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts where some contracts in the underlying group are not covered by the group of reinsurance contracts. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Group applies the same analysis it has performed for groups potentially onerous at initial recognition.

Liability for incurred claims

At initial recognition of a group of contracts, the liability for incurred claims is nil as no insured events have occurred.

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 risk adjustment. The Group adjusts the liability for incurred claims for the time value of money for all its groups.

Liability for incurred claims includes periodic payment orders which are settlements in the form of annuities awarded by UK courts on some high value injury claims where the claimant's quality of life has been impaired due to severe injuries. These annuities are payable until death and increase annually, applying a defined index set in the court decision, usually linked to care provider professionals' salaries and are eligible for reinsurance where applicable.

g) Modification and derecognition

The Group derecognises insurance contracts when:

i. The rights and obligations relating to the contract are extinguished; or
ii. The contract is modified such that it results in a change in the measurement, 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 as an adjustment to the relevant liability for remaining coverage.

h) Insurance revenue

Insurance revenue on direct business are allocated to the period and include:

i. Premium receipts net of cancellations and sales taxes; and
ii. Other insurance revenue which includes fees collected from policyholders in connection with the costs incurred for the Group's yearly billing plans.

For contracts measured under the:

i. PAA, the allocation is based on the passage of time which is usually 12 months.
ii. GMM, the allocation is based on the service coverage provided which is the expected claims settlement pattern for insured claims.

i) Insurance service expenses

Insurance service expenses include fulfilment and acquisition cash flows which are costs directly attributable to insurance contracts and are comprised of both direct costs and an allocation of fixed and variable overhead costs. It is composed of the following:

i. Incurred claims and other insurance service expenses, which are fulfilment cash flows and include direct incurred claims and non-acquisition costs directly related to fulfilling insurance contracts;
ii. Amortisation of insurance acquisition cash flows; and
iii. Losses and reversal of losses on onerous contracts.

The Group has elected to present changes in risk adjustment related to the non-financial portion in Insurance service result and changes in the financial portion (unwinding and change in discount rates) in Net insurance financial result.

j) Insurance acquisition cash flows

Insurance acquisition cash flows are costs directly attributable to selling or underwriting a portfolio of insurance contracts and are presented in the liability for remaining coverage. These cash flows include direct costs such as commissions and indirect costs such as salaries, rent and technology costs. The PAA provides the option to expense insurance acquisition cash flows as they are incurred. The Group has elected to amortise these costs on a straight-line basis over the coverage period of the related groups.

Where the insurance acquisition cash flows are paid before the related group of insurance contracts is recognised, an asset is recognised for each related group of insurance contracts. This asset is derecognised when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts.

k) Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the discount unwinding and changes in discount rates and the effect of financial risk and changes in financial risk. The Group has elected to record the changes in discount rates in finance income and expenses in Net income.

l) Net income or expense from reinsurance contracts held

Net income or expense from reinsurance contracts held comprises of 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 of the underlying contracts as part of the amounts expected to be recovered from reinsurers and includes commissions not contingent on claims as a reduction of the allocation of reinsurance premiums.

3.2 Financial instruments

The Group adopted IFRS 9 on 1 January 2023. The comparative information was not restated and continues to be recognised under IAS 39 – Financial instruments (IAS 39). Refer to note 4 – Adoption of new accounting standards for the impact on the adoption of IFRS 9.

IFRS 9 requires management to use judgements, estimates and assumptions, further details of which are provided in note 13 – Financial risk.

IFRS 9 accounting policies are described below:

a) Classification and measurement of financial instruments

Business model assessment

The Group determines its investment business model by considering its insurance business. In addition, judgement is used in concluding which model aligns best with its core business objectives and practices. Factors that are used in business model decisions include how insurance business generate profits and cash flow, significant risks facing the business on asset and liability fronts, how compensation is determined for portfolio managers responsible for managing investments, as well as historical and projected turnover of the investment portfolio to fund insurance business on a day-to-day basis. The Group's business models fall into two categories, which are indicative of the key strategies to generate returns:

i. The Group's primary business model is HTC&S which provides a desired flexibility to support the Group's insurance business i.e., contractual cash flows from financial assets are collected by holding such investments, and these financial assets are sold when required to fund insurance contract liabilities.
ii. The Group also carries certain financial assets under a HTC business model where the emphasis is to collect contractual cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.

The Group also specifically designates on an individual basis, a portion of investments as FVTPL to reduce accounting mismatch in Net income. This designation is irrevocable.

SPPI assessment

Financial assets which are held within HTC&S and HTC business models are assessed to evaluate if their contractual cash flows are comprised of SPPI. Contractual cash flows generally meet SPPI criteria if such cash flows reflect compensation for basic credit risk and customary returns from a debt instrument which also includes time value for money. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments

The classification and measurement of debt instruments is dependent on the business (refer to *Business model assessment* above) model and cash flow characteristics of the asset as described below. They are reclassified when and only when business model for managing those assets changes.

Amortised cost	FVTOCI	FVTPL
Assets held for the collection of contractual cash flows. Cash flows represent solely payments of principal and interest.	Assets held for the collection of contractual cash flows and for selling the financial assets. Cash flows represent solely payments of principal and interest.	Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. Irrevocable election can be made (on an instrument-by-instrument basis) instead of amortised cost or FVTOCI if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments

There are two measurement categories under which an equity instrument could be classified:

FVTPL	FVTOCI
Default classification for all equity instruments.	Irrevocable election (on an instrument-by-instrument basis) on the date of acquisition. Designation is not permitted if the equity instrument is held for trading.

The Group's financial instruments are classified and measured as follows:

<table>
<tr><th>Classification</th><th>Financial instruments</th><th>Description</th><th>Initial and subsequent measurement</th></tr>
<tr><td>FVTOCI</td><td>Debt securities</td><td>Investments intended to be held for an indefinite period and which may be sold in response to liquidity needs or changes in market conditions.</td><td>Initially measured at fair value using transaction prices at the trade date.
Subsequently measured at fair value using bid prices at the end of the period (except as noted below for Level 3 instruments), with changes in fair value recognised in OCI when unrealised or in Net gains or losses when realised or impaired.</td></tr>
<tr><td>Designated as FVTPL on initial recognition</td><td>Debt securities backing insurance and reinsurance contracts</td><td>A portion of the Group’s investments backing its insurance and reinsurance contracts has been voluntarily designated as FVTPL to eliminate the accounting mismatch caused by fluctuations in fair values of underlying insurance and reinsurance contracts due to changes in discount rates. To comply with regulatory guidelines, the Group ensures that the duration of debt securities designated as FVTPL is approximately equal to the weighted-dollar duration of insurance and reinsurance contracts.</td><td rowspan="4">Initially measured at fair value using transaction prices at the trade date.
Subsequently measured at fair value using bid prices (for financial assets) or ask prices (for financial liabilities) at end of period, with changes in fair value recognised in Net gains or losses.
The effective portion of designated cash flow hedges and net investment hedges in foreign operations is recognised in foreign exchange gains or losses in OCI.</td></tr>
<tr><td rowspan="3">Classified as FVTPL</td><td>Equity instruments</td><td>All ordinary shares portfolios and certain preferred shares.</td></tr>
<tr><td>Derivative financial instruments</td><td>Derivatives used for economic hedging purposes and for the purpose of modifying the risk profile of the Group’s investment portfolio as long as the resulting exposures are within the investment policy guidelines.</td></tr>
<tr><td>Other instruments</td><td>Investments in mutual and private funds.</td></tr>
<tr><td rowspan="2">Amortised cost – other financial assets</td><td>Cash and cash equivalents</td><td>Highly liquid investments held to meet short-term requirements that are readily convertible into a known amount of cash, are subject to an insignificant risk of changes in value and have an original maturity of three months or less.</td><td>Initially measured at fair value using transaction prices at the trade date.
Subsequently measured at amortised cost using the effective interest method.</td></tr>
<tr><td>Loans and receivables</td><td>Financial assets with fixed or determinable payments not quoted in an active market (including securities purchased under reverse repurchase agreements).</td><td>Initially measured at fair value using transaction prices at the trade date.
Subsequently measured at amortised cost using the effective interest method.</td></tr>
<tr><td rowspan="2">Amortised cost - Other financial liabilities</td><td>Debt outstanding</td><td>Financial liabilities with fixed or determinable payments and maturity date.</td><td>Initially measured at fair value at the issuance date net of transaction costs.
Subsequently measured at amortised cost using the effective interest method.</td></tr>
<tr><td>Securities sold under repurchase agreements</td><td>The sale of securities together with an agreement to repurchase them in the short-term, at a set price and date.</td><td>Initially measured at fair value at the amount owing.
Subsequently measured at amortised cost using the effective interest method.</td></tr>
</table>

b) Revenue and expense recognition

Net investment income

Under IFRS 9 income on debt securities is recognised as follows:

i. FVTOCI is recognised in Interest income using the effective interest rate method, including the amortisation of premiums earned or discounts incurred as well as transaction costs.
ii. FVTPL is recognised in Other interest income using a similar methodology, except that transaction costs are expensed as incurred.

Net gains (losses) on investment portfolio

Gains and losses on the sale of FVTOCI debt and FVTPL equity securities under IFRS 9 are generally calculated on a first in, first out basis, except for certain equity strategies.

Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are expensed as incurred; otherwise, transaction costs are capitalised on initial recognition and amortised using the effective interest rate method.

c) Impairment

The Group assesses, on a forward-looking basis, the ECL associated with its assets carried at amortised cost and FVTOCI debt securities. The impairment methodology applied depends on whether there has been a significant increase in credit risk or an actual default.

Staging	Debt securities
Stage 1 (12 months)	Credit risk of the financial instrument is low (investment grade) or credit risk has not increased significantly since initial recognition (performing)
Stage 2 (Life-time)	Credit risk has increased significantly since inception (underperforming) but the financial instrument is not credit impaired
Stage 3 (Life-time)	Financial instrument is credit impaired. See note 13 – financial risk.

At each reporting date, the Group recognises an allowance for debt instruments measured at FVTOCI or at amortised cost:

i. The ECL does not reduce the carrying amount of FVTOCI financial assets, which remains at their fair value. Instead, an amount equal to the allowance and its subsequent changes is reclassified from OCI to Net income. Refer to note 13 – financial risk for details.
ii. The ECL for financial instruments measured at amortised cost reduces the carrying amount of these financial assets with a corresponding expense recognised in Net income.

IFRS 9 provides a simplification where an entity may assume that the criterion for recognising lifetime ECL is not met if the credit risk on the financial instrument is low (investment grade) at the reporting date. The Group will use the low credit risk simplification as approximatively 95% of the debt securities portfolio consists of investment-grade financial instruments with a quoted market price.

For trade receivables only, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

4. Adoption of new and revised accounting standards

4.1 IFRS 17 - Insurance Contracts

IFRS 17 replaces IFRS 4 - Insurance Contracts (IFRS 4) for annual periods beginning on or after 1 January 2023. The Group has restated comparative information for 2022 applying the transitional provisions in Appendix C to IFRS 17. The nature and effect of the changes in accounting policies can be summarised, as follows:

a) Changes to classification and measurement

The adoption of IFRS 17 did not change the classification of the Group's insurance contracts. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance and reinsurance contracts.

IFRS 17 introduces a new concept of the GMM for the recognition and measurement of insurance contracts, which requires measuring insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. In addition, entities have the option to use a simplified measurement model (the PAA), for short-duration contracts; this model is applicable to all the Group's insurance and reinsurance contracts except in limited circumstances where the GMM is required.

The accounting under the PAA is similar to IFRS 4, but differs in the following key areas:

i. IFRS 17 requires the identification of groups of onerous contracts at a more granular level than the liability adequacy test performed under IFRS 4. Under IFRS 17 the loss component of onerous contracts measured based on projected profitability is recognised immediately in Net income, resulting in early recognition compared to IFRS 4;

ii. The liability for incurred claims includes an explicit risk adjustment which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflected the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment is the compensation required for bearing the uncertainty that arises from non-financial risk. Like the risk margin, the risk adjustment includes the benefit of diversification, therefore the two methodologies are fairly aligned.

iii. The liability for incurred claims is discounted at a rate that reflects the characteristics of the liabilities and the duration of each portfolio. The Group has established discount yield curves using risk-free rates adjusted to reflect the appropriate illiquidity characteristics of the applicable insurance contracts. Under IFRS 4, only claims liabilities where there is a long period from incident to claims settlement were discounted, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date.

The Group's classification and measurement of insurance and reinsurance contracts is explained in note 7 – Insurance and reinsurance contracts.

b) Changes to presentation and disclosures

IFRS 17 provides specific guidance for the presentation and disclosures of insurance and reinsurance contracts.

Consolidated balance sheets

Changes in the balance sheet line items are introduced by IFRS 17. The previously reported line items insurance debtors, insurance contract liabilities, and other related assets and liabilities are presented together by portfolio on a single line called Insurance contract liabilities or assets. The previously reported line items reinsurers' share of insurance contract liabilities, reinsurance debtors, reinsurance liabilities, and other related assets and liabilities are presented together by portfolio on a single line called Reinsurance contract assets or liabilities.

Portfolios are composed of groups of contracts covering similar risks and managed together. Portfolios of insurance and reinsurance contracts issued and reinsurance contracts held are presented separately between:

i. Portfolios of insurance and reinsurance contracts issued that are assets;
ii. Portfolios of reinsurance contracts held that are assets;
iii. Portfolios of insurance contracts and reinsurance contracts issued that are liabilities; and
iv. Portfolios of reinsurance contracts held that are liabilities.

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17.

Consolidated statements of income

Changes in Net income line items are introduced by IFRS 17, which requires separate presentation of Insurance revenue, Insurance service expenses and insurance finance income or expense. The following previously reported line items are no longer disclosed: gross written premiums, net earned premiums, net claims and underwriting and policy acquisition costs.

c) Transition

On 1 January 2022, the transition date to IFRS 17, the Group identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied unless it was impracticable, derecognised any existing balances that would not exist had IFRS 17 always applied and recognised any resulting net difference in equity.

On transition to IFRS 17 on 1 January 2022, the Group's Equity attributable to owners of the Parent Company was positively impacted by approximately £40m after tax, mainly due to the discounting of Claims liabilities applying the principles of the new standard. IFRS 17 also resulted in presentation changes as described above.

The following table summarises the impact of IFRS 17 on the Group's consolidated balance sheet on transition:

As at 1 January 2022	**IFRS 4**	**Impact of IFRS 17**	**IFRS 17**
Total assets	11,898	(2,586)	9,312
Total liabilities	(8,807)	2,626	(6,181)
Equity attributable to shareholders	(2,935)	(40)	(2,975)
Equity attributable to non-controlling interests	(156)	-	(156)

Full retrospective approach

On transition, the Group has applied the full retrospective approach to all contracts issued.

4.2 IFRS 9 - Financial instruments

The Group has adopted IFRS 9 on 1 January 2023. The comparative information was not restated and continues to be reported under IAS 39.

On transition to IFRS 9 on 1 January 2023, the Group's Equity attributable to owners of the Parent Company was negatively impacted by £1m, which equates to the ECL calculated on its amortised cost loans and receivables.

IFRS 9 also resulted in reclassifications from Revaluation reserves to Retained earnings as follows:

i. Certain equity instruments previously classified as AFS were classified as FVTPL which will result in increased volatility in Net income subsequently;

ii. The FVTPL designation of some fixed income instruments changed on transition date; and

iii. The ECL calculated on instruments at fair value previously in OCI were recycled to Retained earnings (subsequently to Net income).

As at 1 January 2023, the Group reclassified £98m of unrealised losses (after tax) from Revaluation reserves to Retained earnings.

The following table summarises the classification and measurement impacts of IFRS 9 on transition. The adoption of IFRS 9 had no significant impact on the Group's other financial assets or liabilities.

As at 1 January 2023	**Measurement category**		**Carrying amount**		
	IAS 39	**IFRS 9**	**IAS 39**	**Impact of IFRS9**	**IFRS 9**
Cash and cash equivalents	Amortised cost	Amortised cost	362	-	**362**
Debt securities	AFS	FVTOCI	4,689	(2,471)	**2,218**
	FVTPL	FVTPL[1]	-	2,471	**2,471**
Equities	AFS	n/a	212	(212)	**-**
	FVTPL	FVTPL	-	212	**212**
Loans	Amortised cost	Amortised cost[2]	433	(1)	**432**
			5,696	(1)	**5,695**

[1] Includes £304m of debt securities classified as FVTPL as they do not pass the SPPI test.
[2] The IFRS 9 carrying amount includes an ECL impact of £1m.

Hedge accounting

IFRS 9 includes an accounting policy choice to continue applying existing hedge accounting rules under IAS 39 until a project to review macro hedging is complete. The Group has elected to apply this policy choice.

5. Accounting standards issued but not yet effective

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory in a subsequent accounting period. The Group has evaluated these changes and none are expected to have a significant impact on the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. Financial assets

As at 30 June 2023 (IFRS 9)	**FVTPL**		**FVTOCI**	**Amortised Cost**	**Total carrying amount**
	Classified as FVTPL	**Designated as FVTPL**	**Designated as FVTOCI**		
	£m	**£m**	**£m**	**£m**	**£m**
Equity securities	**207**	**-**	**-**	**-**	**207**
Debt & fixed income securities	**338**	**1,969**	**2,239**	**-**	**4,546**
Loans and receivables	**-**	**-**	**-**	**415**	**415**
	545	**1,969**	**2,239**	**415**	**5,168**

As at 31 December 2022 (IAS 39)	AFS	Amortised cost	Total carrying amount
	£m	£m	£m
Equity securities	212	-	212
Debt & fixed income securities	4,689	-	4,689
Loans and receivables	-	433	433
	4,901	433	5,334

7. Insurance and reinsurance contracts

7.1 Insurance revenue

For the six month period ended 30 June	**2023**	2022
	£m	£m
Contracts measured under PAA	**1,895**	1,975
Contracts measured under the GMM		
Amounts related to changes in liability for remaining coverage		
Risk adjustment recognised for the risk expired	**2**	5
Expected incurred claims and other insurance service expense	**68**	118
Total insurance revenue	**1,965**	**2,098**

7.2. Reconciliation of movements in carrying amounts

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts changed during the period as a result of cash flows and amounts recognised in the interim condensed consolidated income statement.

The Group presents a table that separately analyses movements in the liability for remaining coverage and the liability for incurred claims and reconciles these movements to the line items in the interim condensed consolidated income statement.

A second reconciliation is presented for contracts measured under the GMM, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment and the contractual service margin.

Insurance contracts analysis by remaining coverage and incurred claims

For the six month period ended 30 June 2023

	Liability for remaining coverage		Liability for incurred claims			
				Contracts under PAA		
	Excluding loss component	Loss component	Contracts under GMM	Present value of future cash flows	Risk adjustment	Total
	£m	£m	£m	£m	£m	£m
Insurance contract balances, beginning of period	**(446)**	**(100)**	**(29)**	**(5,050)**	**(196)**	**(5,821)**
Changes in comprehensive income:						
Insurance revenue	**1,965**	**-**	**-**	**-**	**-**	**1,965**
Incurred claims and other insurance service expense	**-**	**48**	**(43)**	**(1,430)**	**(41)**	**(1,466)**
Amortisation of insurance acquisition cash flows	**(332)**	**-**	**-**	**-**	**-**	**(332)**
Losses and reversal on onerous contracts	**-**	**(52)**	**1**	**-**	**-**	**(51)**
Adjustments to liabilities for incurred claims	**-**	**-**	**-**	**129**	**1**	**130**
Insurance service expense	**(332)**	**(4)**	**(42)**	**(1,301)**	**(40)**	**(1,719)**
Investment component	**53**	**-**	**-**	**(53)**	**-**	**-**
Insurance service result from insurance contracts	**1,686**	**(4)**	**(42)**	**(1,354)**	**(40)**	**246**
Insurance finance income	**1**	**1**	**1**	**24**	**1**	**28**
Exchange rate differences	**9**	**(1)**	**-**	**2**	**1**	**11**
Total changes in comprehensive income	**1,696**	**(4)**	**(41)**	**(1,328)**	**(38)**	**285**
Cash flows						
Premium received	**(2,048)**	**-**	**-**	**-**	**-**	**(2,048)**
Claims and other insurance service expense paid	**-**	**-**	**49**	**1,443**	**-**	**1,492**
Insurance acquisition cash flows	**378**	**-**	**-**	**-**	**-**	**378**
Total cash flows	**(1,670)**	**-**	**49**	**1,443**	**-**	**(178)**
Amounts transferred from insurance acquisition cash flows	**4**	**-**	**-**	**-**	**-**	**4**
Insurance contract balances, end of period	**(416)**	**(104)**	**(21)**	**(4,935)**	**(234)**	**(5,710)**

For the six month period ended 30 June 2022

	Liability for remaining coverage		Liability for incurred claims			
				Contracts under PAA		
	Excluding loss component	Loss component	Contracts under GMM	Present value of future cash flows	Risk adjustment	Total
	£m	£m	£m	£m	£m	£m
Insurance contract balances, beginning of period	(613)	(13)	(58)	(4,750)	(182)	(5,616)
Changes in comprehensive income:						
Insurance revenue	2,098	-	-	-	-	2,098
Incurred claims and other insurance service expense	-	9	(66)	(1,412)	(30)	(1,499)
Amortisation of insurance acquisition cash flows	(384)	-	-	-	-	(384)
Losses and reversal on onerous contracts	-	(63)	-	-	-	(63)
Adjustments to liabilities for incurred claims	-	-	-	49	28	77
Insurance service expense	(384)	(54)	(66)	(1,363)	(2)	(1,869)
Investment component	40	-	-	(40)	-	-
Insurance service result from insurance contracts	1,754	(54)	(66)	(1,403)	(2)	229
Insurance finance income (expense)	(28)	1	(4)	22	3	(6)
Exchange rate differences	(6)	1	-	(14)	(1)	(20)
Total changes in comprehensive income	1,720	(52)	(70)	(1,395)	-	203
Cash flows						
Premium received	(2,122)	-	-	-	-	(2,122)
Claims and other insurance service expense paid	-	-	98	1,273	-	1,371
Insurance acquisition cash flows	469	-	-	-	-	469
Total cash flows	(1,653)	-	98	1,273	-	(282)
Disposal of business	(9)	-	-	7	-	(2)
Amounts transferred from insurance acquisition cashflows	(6)	-	-	-	-	(6)
Insurance contract balances, end of period	(561)	(65)	(30)	(4,865)	(182)	(5,703)
Insurance contract balances, held for sale	(26)	-	-	(94)	-	(120)
Insurance contract balances, end of period, net held for sale	(535)	(65)	(30)	(4,771)	(182)	(5,583)

7.3. Insurance contracts

Insurance contract liabilities

	30 June 2023	31 December 2022
	£m	£m
Insurance contract liabilities		
Insurance contract balances	**5,710**	5,821
Assets for insurance acquisition cash flows	**(13)**	(15)
	5,697	5,806

Assets for insurance acquisition cash flows

	30 June 2023	31 December 2022
	£m	£m
Opening balance	**15**	17
Amounts incurred during the year	**2**	12
Amounts derecognised and included in the measurement of insurance contracts	**(4)**	(12)
Impairment losses and reversals	**-**	(2)
Closing balance	**13**	15

Insurance contracts analysis by measurement component – Contracts measured under the GMM

For the six month period ended 30 June 2023

	Present value of future cash flows	**Risk adjustment**	**Contractual service margin**	**Total**
	£m	**£m**	**£m**	**£m**
Insurance contract liabilities, beginning of period	**(319)**	**(9)**	**-**	**(328)**
Changes in comprehensive income:				
Changes that relate to current services:				
Risk adjustment recognised for the risk expired	**-**	**2**	**-**	**2**
Experience adjustments	**40**	**-**	**-**	**40**
Changes that relate to future services:				
Changes in estimates that do not adjust the contractual service margin	**(31)**	**(1)**	**-**	**(32)**
Insurance service result from insurance contracts	**9**	**1**	**-**	**10**
Insurance finance income	**4**	**-**	**-**	**4**
Total changes in comprehensive income	**13**	**1**	**-**	**14**
Cash flows:				
Claims and other insurance service expenses paid	**49**	**-**	**-**	**49**
Total cash flows	**49**	**-**	**-**	**49**
Insurance contract liabilities, end of period	**(257)**	**(8)**	**-**	**(265)**

For the six month period ended 30 June 2022

	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
	£m	£m	£m	£m
Insurance contract liabilities, beginning of period	(465)	(16)	-	(481)
Changes in comprehensive income:				
Changes that relate to current services:				
Risk adjustment recognised for the risk expired	-	5	-	5
Experience adjustments	52	-	-	52
Changes that relate to future services:				
Changes in estimates that do not adjust the contractual service margin	(47)	(2)	-	(49)
Insurance service result from insurance contracts	5	3	-	8
Insurance finance income (expense)	(25)	1	-	(24)
Total changes in comprehensive income	(20)	4	-	(16)
Cash flows:				
Claims and other insurance service expenses paid	99	-	-	99
Total cash flows	99	-	-	99
Insurance contract liabilities, end of period	(386)	(12)	-	(398)

Reinsurance contracts analysis by remaining coverage and incurred claims

For the six month period ended 30 June 2023

	Asset for remaining coverage		**Asset for incurred claims**		
			Contracts under PAA		
	Excluding loss recovery component	**Loss recovery component**	**Present value of future cash flows**	**Risk adjustment**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Reinsurance contract assets, beginning of period	**(76)**	**5**	**1,736**	**53**	**1,718**
Changes in comprehensive income:					
Allocation of reinsurance premiums	**(481)**	**-**	**-**	**-**	**(481)**
Commissions Ceded	**31**	**-**	**-**	**-**	**31**
Allocation of reinsurance premiums net of commissions ceded	**(450)**	**-**	**-**	**-**	**(450)**
Amounts recoverable for incurred claims and other	**-**	**(3)**	**383**	**10**	**390**
Loss recoveries and reversals on onerous contracts	**-**	**(1)**	**-**	**-**	**(1)**
Adjustments to liabilities for incurred claims	**-**	**-**	**(78)**	**9**	**(69)**
Amounts recoverable from reinsurers	**-**	**(4)**	**305**	**19**	**320**
Net (expense)/income from reinsurance contracts	**(450)**	**(4)**	**305**	**19**	**(130)**
Reinsurance finance expense	**(4)**	**-**	**-**	**(1)**	**(5)**
Exchange rate differences	**(1)**	**-**	**(5)**	**-**	**(6)**
Total changes in comprehensive income	**(455)**	**(4)**	**300**	**18**	**(141)**
Cash flows					
Premium paid	**510**	**-**	**-**	**-**	**510**
Amounts received	**-**	**-**	**(368)**	**-**	**(368)**
Total cash flows	**510**	**-**	**(368)**	**-**	**142**
Reinsurance contract assets, end of period	**(21)**	**1**	**1,668**	**71**	**1,719**

For the six month period ended 30 June 2022

	Asset for remaining coverage		Asset for incurred claims		
			Contracts under PAA		
	Excluding loss recovery component	Loss recovery component	Present value of future cash flows	Risk adjustment	Total
	£m	£m	£m	£m	£m
Reinsurance contract assets, beginning of period	(62)	-	1,651	37	1,626
Changes in comprehensive income:					
Allocation of reinsurance premiums	(456)	-	-	-	(456)
Commissions Ceded	12	-	-	-	12
Allocation of reinsurance premiums net of commissions ceded	(444)	-	-	-	(444)
Amounts recoverable for incurred claims and other expenses	-	-	324	7	331
Loss recoveries and reversals on onerous contracts	-	2	-	-	2
Adjustments to liabilities for incurred claims	-	-	(19)	8	(11)
Changes in non-performance risk of reinsurers	-	-	-	-	-
Amounts recoverable from reinsurers	-	2	305	15	322
Net (expense)/income from reinsurance contracts	(444)	2	305	15	(122)
Reinsurance finance expense	(4)	-	(13)	(1)	(18)
Exchange rate differences	(3)	-	9	-	6
Total changes in comprehensive income	(7)	-	(4)	(1)	(12)
Cash flows					
Premium paid	454	-	-	-	454
Amounts received	-	-	(288)	-	(288)
Total cash flows	454	-	(288)	-	166
Reinsurance contract assets, end of period	(59)	2	1,664	51	1,658
Reinsurance contract assets, end of period, held for sale	(16)	-	30	-	14
Reinsurance contract assets, end of period, net held for sale	(43)	2	1,634	51	1,644

Reinsurance contracts analysis by measurement component – Contracts measured under the GMM

For the six month period ended 30 June 2023

	Present value of future cash flows	**Risk adjustment**	**Contractual service margin**	**Total**
	£m	**£m**	**£m**	**£m**
Reinsurance contract assets, beginning of period	**2**	**11**	**-**	**13**
Changes in comprehensive income:				
Changes that relate to future services				
Changes in estimates that do not adjust the contractual service margin	**(2)**	**-**	**-**	**(2)**
Net expense from reinsurance contracts	**(2)**	**-**	**-**	**(2)**
Total changes in comprehensive income	**(2)**	**-**	**-**	**(2)**
Reinsurance contact assets, end of period	**-**	**11**	**-**	**11**

For the six month period ended 30 June 2022

	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
	£m	£m	£m	£m
Reinsurance contract assets, beginning of period	5	36	-	41
Changes in comprehensive income:				
Changes that relate to future services				
Changes in estimates that do not adjust the contractual service margin	(1)	(16)	-	(17)
Net expense from reinsurance contracts	(1)	(16)	-	(17)
Reinsurance finance expense	(1)	(8)	-	(9)
Total changes in comprehensive income	(2)	(24)	-	(26)
Reinsurance contact assets, end of period	3	12	-	15

7.4. Significant accounting judgments, estimates and assumptions

Discount rates

The liability for incurred claims under the PAA and GMM and the liability for remaining coverage of contracts under the GMM approach and under the PAA approach when onerous contract liabilities is calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk-free rates are determined by reference to the yields of highly liquid sovereign securities in the currency of the insurance contract liabilities. The illiquidity premium is determined by reference to observable market rates of investment grade bonds that the Group believes reflect the nature of the liabilities and are a suitable proxy for assessing the value of the illiquidity.

Discount rates applied for discounting of future cash flows are listed below:

Yield curves used to discount cash flows for insurance and reinsurance contracts for major currencies

	30 June 2023				31 December 2022			
	1 year	**3 years**	**5 years**	**10 years**	1 year	3 years	5 years	10 years
CAD	5.49%	5.05%	4.79%	4.53%	5.03%	4.77%	4.65%	4.60%
USD	5.57%	5.24%	5.00%	4.92%	5.00%	4.89%	4.87%	5.01%
GBP	6.07%	6.26%	6.00%	5.64%	4.88%	4.95%	4.99%	5.05%
EUR	3.94%	3.93%	3.83%	3.73%	3.33%	3.59%	3.76%	3.93%
Periodic payment orders	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Liability for incurred claims - Estimate of undiscounted future cash flows

The Group establishes claims liabilities to cover the estimated liability for the cash flows associated with incurred losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten and reinsurance contracts placed by the Group. The ultimate cost of claims liabilities is estimated using a range of standard actuarial claims projection techniques in accordance with generally accepted actuarial methods.

The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim (severity) and average number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analysed by accident year, geographical area, as well as significant business line and claim type. Catastrophic events are separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses, or separately projected to reflect their future development that might differ from historical data in the case of catastrophic events.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account all the uncertainties involved.

Risk adjustment

The risk adjustment is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts.

The Group has estimated the risk adjustment based on the loss distribution from the Group's economic capital model. The loss distribution is estimated using standard statistical techniques in accordance with generally accepted actuarial principles. The Group estimates that the risk adjustment is at the 75th percentile of the assessed loss distribution. Percentile estimates for loss distributions are highly uncertain.

The main assumptions underlying these techniques are:

- Historical claims development can be used to generate the full range of potential outcomes; and
- Expert judgments to allow for the correlation between line of business and region.

Additional qualitative judgment is used to assess the extent to which there are events not included in the historic data.

Liability for remaining coverage under GMM and PAA when onerous - Estimate of undiscounted future cash flows

The Group calculates the best estimate of the future cash flows which represents a probability-weighted mean, taking into account the likely distribution.

When estimating future cash flows, the Group includes all cash flows on a probability-weighted basis that are within the contract boundary. The Group incorporates, 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.

Coverage units

Recognition of deferred revenue in Net income through the amortisation of the contractual service margin is dictated by coverage units which quantify the amount of insurance service provided in any given period. In the context of retrospective reinsurance contracts held and acquired contracts, the Group deems the expected pay-out pattern of outstanding future cash flows to be the best representative of service provided.

7.5. Sensitivity analysis

The liability for incurred claims' sensitivity to certain key assumptions is outlined below. It is not possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income. Movements in these assumptions may be non-linear and may be correlated with one another.

Sensitivity analysis (liability for incurred claims) – Impact on Net income

	30 June 2023				31 December 2022			
	Gross of reinsurance[1]		**Net of reinsurance[2]**		Gross of reinsurance[1]		Net of reinsurance[2]	
	Reserves	**Discount rate**	**Reserves**	**Discount rate**	Reserves	Discount rate	Reserves	Discount rate
	+5%	**+1%**	**+5%**	**+1%**	+5%	+1%	+5%	+1%
Liability for incurred claims	**(308)**	**143**	**(190)**	**80**	(313)	143	(191)	79

[1] Represents the liability for incurred claims before net payables included in incurred claims and the reclass of claims reported under the GMM.

[2] Represents the net liability for incurred claims before net payables included in incurred claims and the reclass of net claims reported under the GMM.

7.5. Insurance risk

The adoption of IFRS 17 has not changed the way the Group manages insurance risk. Please refer to Risk Management information in note 6 in the 2022 Annual Report and Accounts for more details.

8. Deferred tax

	Asset		Liability	
	30 June 2023	31 December 2022	**30 June 2023**	31 December 2022
	£m	£m	**£m**	£m
Deferred tax position	**267**	267	**-**	-

There has been no movement in deferred tax assets during the period.

Tax assets and liabilities are recognised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets have been recognised on the basis that management consider it probable that future taxable profits will be available against which these deferred tax assets can be utilised. Key assumptions in the forecast are subject to sensitivity testing which, together with additional modelling and analysis, support management's judgement that the carrying value of deferred tax assets continues to be supportable. The recognition approach is consistent with that applied at 31 December 2022.

The majority of the deferred tax asset recognised based on future profits is in respect of the UK. The evidence for the future taxable profits is a five-year forecast based on the three-year operational plans prepared by the relevant businesses and a further two years of extrapolation, which are subject to internal review and challenge, including by the Board. The two years of extrapolation assumes UK premium growth of 4.0% per annum (31 December 2022: 1.9% across UK business lines) and no overseas premium growth where relevant to UK profit projections. The forecasts incorporate a contingency of £35m per annum (31 December 2022: £35m per annum) as well as including prudent COR assumptions and the impact of forecast future transactions where appropriate. The three year operational plans prepared by the relevant businesses and a further two years of extrapolation is the basis of the future profits in all jurisdictions in which a deferred tax asset is recognised.

A deferred tax asset of £46m is recognised in respect of temporary differences arising from unrealised losses on the FVTOCI/AFS bond portfolio (31 December 2022: £83m). On adoption of IFRS 9 on 1 January 2023, a portion of the AFS bond portfolio was re-designated as FVTPL, triggering a tax transitional adjustment. The £34m deferred tax asset previously recognised on these bonds in the AFS reserve was transferred to retained earnings on 1 January 2023. There was no impact on the total amount of deferred tax recognised. The impact of the tax transitional adjustment will be relieved over 10 years.

On transition to IFRS 17, the Group measured each group of insurance contracts as if the standard had always applied and recognised the resulting net difference in equity (see note 4). The deferred tax effect of the retrospective application of IFRS 17 was included in the adjustment to equity. In the UK, a deferred tax liability was recognised on transition together with an offsetting deferred tax asset, resulting in no net impact. The current tax treatment of the IFRS 17 transitional adjustment differs between territories. In the UK, the full transitional adjustment is subject to tax in 2023, whereas for others the current tax impact is spread over a number of periods; for example, in Ireland, over five years. The UK IFRS 17 deferred tax liability is reversed in 2023 on the transitional adjustment coming into the charge to current tax. The offsetting deferred tax asset is also reversed in 2023. The deferred tax asset and liability are being reversed in the income statement proportionally over the year. The net UK deferred tax asset is shown on the balance sheet in accordance with IAS 12. This results in no change in the net UK deferred tax asset on the statement of financial position.

The tax relief for a portion of the 2023 pension contributions paid to RSA's pension schemes is deferred under UK tax rules and becomes deductible in years 2024-26 (on a straight-line basis). The 2023 contributions are significantly higher than previous periods because of the buy-in transaction (refer to note 15.4 for transaction details). The deferred contributions create a new category of deferred tax asset which is recognised in OCI where the underlying transaction is accounted for. Due to restrictions on deferred tax asset recognition and its priority of use, the new OCI deferred tax asset (£40m) has displaced previously recognised temporary differences in the income statement. This results in no change in the net UK deferred tax asset on the statement of financial position.

The value of the deferred tax asset is sensitive to assumptions in respect of forecast profits. The impact of downward movements in key assumptions on the UK deferred tax asset is summarised below. The relationship between the UK deferred tax asset and the sensitivities below is not always linear. Therefore, the cumulative impact on the deferred tax asset combined sensitivities or longer extrapolations based on the table below will be indicative only.

	30 June 2023	31 December 2022
	£m	£m
1% increase in combined operating ratio[1] across all 5 years	**(18)**	(18)
50 basis points decrease in bond yields	**(7)**	(7)
No annual premium growth[2]	**(9)**	(7)

[1]Combined operating ratio (COR) is a measure of underwriting performance and is the ratio of underwriting costs expressed in relation to earned premiums (refer to note 24 Alternative performance measures).

[2]In respect of the extrapolated years, four to five only.

In October 2021, various countries and jurisdictions, including Canada, the UK and Ireland, agreed to implement the Organization for Economic Co-operation and Development's Pillar Two rules. The proposed rules are designed to ensure that large multinational enterprises pay a minimum effective corporate tax rate (currently agreed upon at 15%) on the income arising in each jurisdiction where they operate.

In order to implement these rules, each country has to enact them into its local legislation. As such, the Group is actively monitoring the status of Pillar Two legislation in jurisdictions in which it operates. In June 2023, the UK substantively enacted legislation in respect of accounting periods beginning on or after 31 December 2023.

In May 2023, the IASB issued International Tax Reform - Pillar Two Model Rules, which amended IAS 12 Income taxes, for fiscal years beginning as of 31 December 2023. The amendments include a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. For jurisdictions in which legislation has been substantively enacted, the Group has applied this exception as it is currently continuing to assess its potential impacts.

9. Goodwill and intangible assets

	30 June 2023	31 December 2022
	£m	£m
Goodwill	**23**	24
Internally generated software	**308**	306
Customer related intangibles	**-**	1
Total goodwill and other intangible assets	**331**	331
Intangible assets not yet available for use	**121**	146

Following the announcement of the Group's exit from the UK personal motor insurance market, £34m of associated software under development has been de-recognised in the period to 30 June 2023.

During the period to 30 June 2022, an ongoing strategic reassessment of programme plans for internally generated software assets following the acquisition of the Group by IFC resulted in assets with a net book value of £18m being de-recognised.

Following the adoption of IFRS 17, these charges are recognised in Acquisition, integration and restructuring costs in the Consolidated income statement.

10. Other assets and liabilities

10.1. Other assets

	30 June 2023	31 December 2022
	£m	£m
Derivatives designated as accounting hedging instruments	**21**	18
Other derivatives	**36**	32
Other debtors	**99**	86
Pension plan surplus	**26**	225
Accrued interest and rent	**50**	45
Prepayments	**48**	36
	280	442

10.2. Other liabilities

	30 June 2023	31 December 2022
	£m	£m
Other creditors	**102**	93
Accruals	**149**	163
Deferred income	**6**	6
Lease liabilities	**69**	71
Pension liabilities	**22**	4
Overdrafts	**9**	8
Provisions	**31**	27
	388	372

11. Financial liabilities related to investments

	30 June 2023	31 December 2022
	£m	£m
Accounts payable to investment brokers on unsettled trades	**42**	1
Derivative financial liabilities	**12**	25
	54	26

12. Fair value measurement

Fair value is used to value a number of assets within the statement of financial position and represents their market value at the reporting date.

Cash and cash equivalents, loans and receivables, other assets and other liabilities

For cash and cash equivalents, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values.

Derivative financial instruments

Derivative financial instruments are financial contracts whose fair value is determined on a market basis by reference to underlying interest rate, foreign exchange rate, equity or commodity instrument or other indices.

Issued debt

The fair value measurement of the Group's issued debt instruments, with the exception of the subordinated guaranteed US$ bonds, are based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's issued debt instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated guaranteed US$ bonds is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spread.

Fair value hierarchy

Fair value for all assets and liabilities which are either measured or disclosed is determined based on available information and categorised according to a three-level fair value hierarchy as detailed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from data other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability valuation that are not based on observable market data (unobservable inputs).

A financial instrument is regarded as quoted in an active market (Level 1) if quoted prices for that financial instrument 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.

For Level 1 and Level 2 investments, the Group uses prices received from external providers who calculate these prices from quotes available at the reporting date for the particular investment being valued. For investments that are actively traded, the Group determines whether the prices meet the criteria for classification as a Level 1 valuation. The price provided is classified as a Level 1 valuation when it represents the price at which the investment traded at the reporting date, taking into account the frequency and volume of trading of the individual investment, together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the Level 1 category. Where the prices provided do not meet the criteria for classification in the Level 1 category, the prices are classified in the Level 2 category. Market traded securities only reflect the possible impact of climate change to the extent that this is built into the market price at which securities are trading.

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value, which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgement is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The principal assets classified as Level 3, and the valuation techniques applied to them, are described below.

Private fund structures

Loan funds are principally valued at the proportion of the Group's holding of the Net Asset Value (NAV) reported by the investment vehicle. Several procedures are employed to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and estimating fair value based on a discounted cash flow model that adds spreads for credit and illiquidity to a risk-free discount rate. Discount rates employed in the model at 30 June 2023 range from **2.5% to 10.1%** (31 December 2022: 3.0% to 11.6%). If necessary the Group will adjust the fund's reported NAV to the discounted cash flow valuation where this more appropriately represents the fair value of its interest in the investment.

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into levels 1 to 3. The table does not include financial assets and liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

12.1. Fair value hierarchy

As at 30 June 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equity securities	**125**	**-**	**82**	**207**
Debt securities	**711**	**3,497**	**338**	**4,546**
Derivative assets	**-**	**57**	**-**	**57**
Total assets measured at fair value	**836**	**3,554**	**420**	**4,810**
Derivative liabilities	**-**	**12**	**-**	**12**
Issued debt	**-**	**126**	**-**	**126**
Total liabilities measured at fair value	**-**	**138**	**-**	**138**

As at 31 December 2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Equity securities	122	-	90	212
Debt securities	806	3,598	285	4,689
Derivative assets	-	50	-	50
Total assets measured at fair value	928	3,648	375	4,951
Derivative liabilities	-	25	-	25
Issued debt	-	166	-	166
Total liabilities measured at fair value	-	191	-	191

12.2. Fair value categorisation

As at 30 June 2023 (IFRS 9)	**Classified as FVTPL**	**Designated as FVTPL**	
	Equity securities	**Debt securities**	**Total**
	£m	**£m**	**£m**
Balance, beginning of period	**89**	**285**	**374**
Total gains/(losses) recognised in:			
Income statement	**(3)**	**2**	**(1)**
Other comprehensive income	**-**	**-**	**-**
Purchases	**-**	**112**	**112**
Disposals	**(4)**	**(50)**	**(54)**
Exchange adjustment	**-**	**(11)**	**(11)**
Balance, end of period	**82**	**338**	**420**

As at 30 June 2022 (IAS 39)	AFS		
	Equity securities	Debt securities	Total
	£m	£m	£m
Balance, beginning of the period	111	250	361
Total gains/(losses) recognised in:			
Income statement	(1)	-	(1)
Other comprehensive income	8	(1)	7
Purchases	16	109	125
Disposals	(21)	(12)	(33)
Exchange adjustment	1	17	18
Balance, end of period	114	363	477

13. Financial risk

The adoption of IFRS 17 and IFRS 9 has not changed the way the Group manages financial risk. Please refer to Risk Management information in note 6 in the 2022 Annual Report and Accounts for more details.

13.1. Net foreign currency and translation exposure

	30 June 2023	31 December 2022
	EUR	EUR
	£m	£m
Consolidated net assets of foreign operations	**285**	273
Less: foreign-currency derivatives, notional amount	**(146)**	(167)
Total net currency exposure	**139**	106

13.2. Credit risk

Impairment assessment

The Group's ECL assessment and measurement method is set out below:

Expected credit loss

The Group assesses the possible default events within 12 months for the calculation of the 12mECL for investments in stage 1 of the ECL. Given the investment policy, the probability of default for new instruments acquired is generally determined to be minimal. Lifetime ECL is required to be calculated for instruments in stages 2 or 3. In all instances, the expected loss given default is based on external historical data.

Significant increase in credit risk and default

The Group continuously monitors all assets subject to ECLs. To determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group considers that there has been a significant increase in credit risk when any contractual payments are more than 30 days past due. In addition, the Group also considers a variety of instances that may indicate unlikeliness to pay by assessing whether there has been a significant increase in credit risk. Such events include:

- The internal rating of the counterparty indicating default or near-default;
- The counterparty having past due liabilities to public creditors or employees;
- The counterparty (or any legal entity within the debtor's group) filing for bankruptcy application/protection; and
- The counterparty's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

The Group considers a financial instrument credit impaired for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Group may also consider an instrument to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. In such cases, the Group recognises a LTECL.

Forward looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as GDP growth, unemployment, equity markets indexes and other economic inputs.

The Group's debt instruments measured at FVTOCI and loans measured at amortised cost are in stage 1 of the ECL model. Due to the high credit quality of the Group's investment portfolio, the allowance for ECL is not significant as at 30 June 2023.

14. Issued debt

	Maturity date	Initial term (years)	Fixed rate	Coupon payment	Principal amount	Carrying amount (net of fees) 30 June 2023	31 December 2022
						£m	**£m**
GBP notes	Oct-45	31	5.13%	Oct.	£120m	**119**	159
US bonds	Oct-29	30	8.95%	Apr. & Oct.	$9m	**7**	7
Total loan capital						**126**	166
Credit facility	May-27					**9**	17
Total debt outstanding						**135**	183

The dated guaranteed subordinated notes were issued on 10 October 2014 at a fixed rate of 5.125%. The nominal bonds, with a £160m nominal value, have a redemption date of 10 October 2045. The Group has the right to repay the notes on specific dates from 10 October 2025. If the bonds are not repaid on that date, the applicable rate of interest would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five year period. £40m of these bonds (nominal value) were repurchased and cancelled in June 2023 (remaining notional £120m).

The subordinated guaranteed US$ bonds were issued in 1999 and have a nominal value of $9m and a redemption date of 15 October 2029. The rate of interest payable on the bonds is 8.95%.

The bonds and the notes are contractually subordinated to all other creditors of the Group such that in the event of a winding up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met.

The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

There have been no defaults on any bonds or notes during the year.

15. Employee future benefits

15.1. Funded status

The DB obligation, net of the fair value of plan assets, is recognised on the consolidated balance sheet as an asset when the plan is in a surplus position, or as a liability when the plan is in a deficit position. This classification is determined on a plan-by-plan basis.

	30 June 2023	31 December 2022
	£m	£m
Defined benefit obligation	**(5,246)**	(5,461)
Fair value of plan assets	**5,252**	5,792
	6	331
Other net surplus remeasurements	**(2)**	(110)
Net DB asset	**4**	221
Recognised in:		
Other assets - plans in a surplus position	**26**	225
Other liabilities - plans in a deficit position and unfunded plans	**(22)**	(4)
	4	221

The Group completed the purchase of annuity buy-in insurance contracts (buy-ins) for its two major UK DB pension plans during the six-month period ended 30 June 2023. Refer to Note 15.6 - *Purchase of annuity buy-in insurance contracts* for more details.

15.2. Employee future benefit expense recognised in the Income statement

	30 June 2023	30 June 2022
	£m	£m
Current service cost	**-**	(1)
Net interest expense:		
Interest expense on defined benefit obligation	**(130)**	(79)
Interest income on plan assets	**148**	86
Other	**(4)**	(4)
	14	2

15.3. Actuarial gains/losses on employee future benefits

	30 June 2023	30 June 2022
	£m	£m
Remeasurements related to:		
Change in discount rate used to determine the benefit obligation	**268**	2,261
Actual return on plan assets	**(287)**	(2,226)
Plan experience and change in other financial assumptions	**(69)**	47
Annuity buy-in insurance contracts[1]	**(854)**	-
Other net surplus remeasurements[1]	**108**	(60)
	(834)	22

[1]The buy-in transaction completed on 27 February 2023 resulted in a net impact of £727 million, composed of a remeasurement loss on plan assets of £854 million included in annuity buy-in insurance contracts and the derecognition of a tax expense on surplus of £127 million included in other net surplus remeasurements. Refer to Note 15.6 - *Purchase of annuity buy-in insurance contracts* for more details.

15.4 Composition of pension plan assets

The pension plan assets were mainly composed of annuity buy-in insurance contracts as at 30 June 2023 and of securities from the government and financial sectors as at 31 December 2022. The change in composition in pension plans was due to the buy-in transaction completed during the six-month period ended 30 June 2023. Refer to Note 15.6 - *Purchase of annuity buy-in insurance contracts* for more details.

	30 June 2023	31 December 2022
	£m	£m
Cash and cash equivalents	**184**	1,278
Debt securities:		
Government	**49**	4,048
Non-government	**13**	1,781
Debt securities	**62**	5,829
Equity securities	**15**	23
Annuity buy-in insurance contracts	**5,169**	-
Derivative financial instruments	**(6)**	(18)
Investment property	**61**	421
Other	**85**	303
Total investments	**5,570**	7,836
Value of asset and longevity swaps	**-**	(2,044)
Deferred premium payable to PIC	**(318)**	-
Total net plan assets	**5,252**	5,792

15.5 Assumptions used

The following table presents changes of certain key assumptions.

	30 June 2023	31 December 2022
To determine the defined benefit obligation:		
Discount rate	**5.26%**	4.86%
Rate of inflation (RPI)	**3.19%**	3.11%
Rate of inflation (CPI)	**2.57%**	2.46%

15.6. Purchase of annuity buy-in insurance contracts

On 27 February 2023 the Trustees of the Group's two major UK DB pension plans (the UK plans) entered into an agreement with PIC, a specialist insurer of defined benefit pension plans, to purchase buy-ins, as part of its de-risking strategy. The buy-in agreement transferred the remaining economic and demographic risks associated with these plans to PIC and removed the volatility in relation to these plans from the Group's consolidated statement of financial position. The main risks that the Group retains are the counterparty risk and the market risk on the assets remaining in the UK plans described below.

At the transaction date, the UK plans transferred the majority of their plan assets and an upfront contribution of £481m to PIC. Of the total buy-in premium of £6,307m, an amount of £550m was deferred and will be paid through the sale of certain less liquid assets retained by the UK plans which are expected to be mostly liquidated by the end of 2023. During the period ended 30 June 2023, the UK plans paid £237m of the deferred annuity premium, including the interest accrued since the transaction date. The Group has committed to the UK plans to fund any shortfall in the deferred annuity premium obligation resulting from the liquidation of the assets. In addition, the UK plans retained longevity swaps that were already in place. Refer to *Asset and longevity swaps* below for more details.

The buy-in comprised of various contracts which were considered in aggregate as one single contract because they form a structure designed together to exactly match the amount and timing of all the benefits payable by the UK plans. The Group was not legally relieved of the primary responsibility for the obligation since the contracts simply cover the benefit payments that continue to be payable by the UK plans. The contracts provide the option to convert the buy-ins into individual policies which would transfer the UK plan assets and obligation to PIC (known as a buy-out). While this course of action may be considered in the future, a separate decision would be required, and certain significant conditions would need to be met before any buy-out can be executed. Consequently, the transaction was considered a buy-in as opposed to a buy-out under IAS 19. As a result, an initial actuarial loss of £727m net of tax was recognised in OCI during the period ended 30 June 2023. The fair value of annuity buy-in insurance contracts subsequently fluctuates based on changes in the value of the associated DB obligation.

The buy-in transaction was funded through the injection of share capital from the Group's immediate parent company, 2283485 Alberta Limited of £480m (note 19. Share capital).

Assets and longevity swaps

In 2009, the Group had entered into an arrangement that provided coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the UK plans at that time. The arrangement provided for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio made up of quoted government debt which was offset by asset swaps and longevity swaps held by the pension funds. On the UK buy-in transaction date, the portfolio and asset swaps were novated to PIC and the longevity swaps remained in place with another counterparty, as plan assets of the UK plans. In combination with the other buy-in insurance policies purchased from PIC, these longevity swaps were accounted for as qualifying insurance policies at the UK buy-in transaction date, based on the value of the associated DB obligation under IAS 19. PIC are providing the plans with the funding required to support the longevity swaps. As at 30 June 2023 £123m of collateral was being posted by the plans to the longevity swap counterparty.

Funding arrangement

As part of its funding arrangements in place prior to the UK buy-ins transaction, the Group paid its final annual contribution of £75m plus expenses and regulatory levies during the period ended 30 June 2023. As agreed with the Trustees of the UK plans, the Group will not be required to make any additional annual mandatory funding contribution but will continue to provide a parental guarantee of the obligations.

During the six month period ended 30 June 2023, the Group contributed a total of £604m to the UK plans, including the annual contribution and upfront contribution to PIC.

Other net surplus remeasurement

Prior to the UK buy-ins transaction, the net DB asset (liability) of the UK plans was presented net of a 35% tax expense of an authorised return of surplus, which was classified with Other net surplus remeasurements. Since the surplus of the UK plans was derecognised through the UK buy-ins transaction, the 35% tax provision totalling £127m has also been derecognised through OCI during the period ended 30 June 2023.

16. Operating segments

The Group's primary operating segments comprise UK, International and Central Functions. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. International comprises operating segments based in Ireland, and Europe. Central Functions includes the Group's internal reinsurance function.

Each operating segment is managed by individuals who are accountable to the Group Chief Executive and the Group Board of Directors, who together are considered to be the chief operating decision maker in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principal markets.

16.1 Assessing segment performance

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums
- Underwriting result

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result is the key internal measure of profitability of the operating segments.

Net written premiums, underwriting result and business operating result are APMs. Refer to note 24 for a reconciliation to the nearest IFRS measure. A 'Jargon buster' can also be found in the RSA Insurance Group Limited Annual Report and Accounts 2022.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

16.2 Segment revenue and results

For the six month period ended 30 June 2023

	UK	International	Central Functions	Total
	£m	£m	£m	£m
Net written premiums (management basis)	**923**	**290**	**162**	**1,375**
Underwriting result	**11**	**63**	**8**	**82**
Investment result				**79**
Central costs and other activities				**(7)**
Business operating result (management basis)				**154**
Realised losses				**(1)**
Unrealised losses, impairments and foreign exchange				**(37)**
Interest costs				**(5)**
Pension net interest and administration costs				**14**
Integration, acquisition and reorganisation costs				**(26)**
Changes in economic assumptions				**(44)**
Profit before tax				**55**
Tax on operations				**(64)**
Loss after tax				**(9)**

For the six month period ended 30 June 2022 (restated)[1]

	UK	International	Central Functions	Total
	£m	£m	£m	£m
Net written premiums (management basis)	1,002	363	196	1,561
Underwriting result	47	20	19	86
Investment result				59
Central costs and other activities				(10)
Business operating result (management basis)				135
Realised losses				(1)
Unrealised gains, impairments and foreign exchange				129
Interest costs				(5)
Pension net interest and administration costs				4
Integration, acquisition and reorganisation costs				(45)
Profit on disposal of business				7
Profit before tax				224
Tax on operations				(32)
Profit after tax				192

[1] Restated for the adoption of IFRS 17 – Insurance contracts. Refer to Note 4 Adoption of new accounting standards.

17. Net investment return and net insurance financial result

17.1 Net investment return and net insurance financial result

	2023	2022
	(IFRS 9)	(IAS 39)
	£m	£m
Net investment income	**79**	59
Net gains (losses) on investment portfolio	**(62)**	141
Net investment return	**17**	200
Net insurance financial result	**23**	(24)
	40	176

17.2 Net investment income

	2023 (IFRS 9) £m	2022 (IAS 39) £m
Interest income calculated using the effective interest method:		
Debt securities designated or classified as FVTOCI[1]	**26**	-
Debt securities classified as AFS[2]	**-**	42
Loans and cash and cash equivalents	**11**	6
Interest and similar income on securities designated or classified as FVTPL	**36**	1
Interest income	**73**	49
Dividend income:		
AFS[2]	**-**	7
FVTPL	**5**	-
	5	7
Investment property rental income	**6**	7
Investment income	**84**	63
Expenses	**(5)**	(4)
Net investment income	**79**	59

[1] Not applicable for the six month period ended 30 June 2022, as related to IFRS 9. Refer to note 4 Adoption of new accounting standards.
[2] Not applicable for the six month period ended 30 June 2023, as related to IAS 39. Refer to note 4 Adoption of new accounting standards.

17.3 Net gains/(losses) on investment portfolio

	2023 (IFRS 9)			2022 (IAS 39)		
	Fixed income £m	**Equity, property and derivatives £m**	**Total £m**	Fixed income £m	Equity, property and derivatives £m	Total £m
Net gains (losses) from:						
Financial instruments:						
Classified or designated as FVTOCI[1]	**(18)**	**-**	**(18)**	-	-	-
Classified as AFS[2]	**-**	**-**	**-**	(287)	(17)	(304)
Classified as FVTPL	**(26)**	**2**	**(24)**	-	-	-
	(44)	**2**	**(42)**	(287)	(17)	(304)
Derivatives[3]	**-**	**4**	**4**	-	8	8
Investment property	**-**	**7**	**7**	-	36	36
Net foreign currency gains/(losses)	**(49)**	**-**	**(49)**	98	-	98
ECL expense	**-**	**-**	**-**	-	-	-
Impairment losses from equities	**-**	**-**	**-**	-	(1)	(1)
	(93)	**13**	**(80)**	(189)	26	(163)

[1] Not applicable for the six month period ended 30 June 2022, as related to IFRS 9. Refer to Note 4 Adoption of new accounting standards.
[2] Not applicable for the six month period ended 30 June 2023, as related to IAS 39. Refer to Note 4 Adoption of new accounting standards.
[3] Excluding foreign currency contracts, which are recognised in Net foreign currency gains/(losses) on investments.

17.4 Net insurance financial result

For the six month period ended 30 June	**2023 £m**	2022 £m
Change in the carrying amount of insurance contracts due to:		
Unwind of discount	**(111)**	(65)
Changes in discount rates and other financial assumptions	**61**	179
Net foreign currency gains (losses)	**78**	(120)
Insurance finance income (expense)	**28**	(6)
Change in the carrying amount of reinsurance contracts due to:		
Unwind of discount	**37**	25
Changes in discount rates and other financial assumptions	**(21)**	(59)
Net foreign currency (losses) gains	**(21)**	16
Reinsurance expense	**(5)**	(18)

18. Income tax

The Group reported an income statement tax charge for the six months ended 30 June 2023 of £64m (six months ended 30 June 2022: £32m), giving an effective tax rate of 115.6% (six months ended 30 June 2022: 29.6%).

Current and deferred tax are recognised in the consolidated income statement, except to the extent that the tax arises from a transaction or event recognised either in other comprehensive income or directly in equity. The income statement tax charge is made up of a current tax charge of £20m (six months ended 30 June 2022: £16m) and a deferred tax charge of £44m (six months ended 30 June 2022: £16m).

The main components of the Group's income statement charge (and high effective tax rate) for the six months to 30 June 2023 are as follows:

- The significant contributions paid to the UK pension plans in respect of the buy-ins (refer to note 15 Employee future benefits) means that the tax relief for a portion of the 2023 contributions is deferred and becomes deductible in years 2024-26 under UK tax rules. These deferred contributions create a new deferred tax asset which is recognised in OCI, where the underlying transaction is accounted for. Due to restrictions on UK deferred tax asset recognition, the new OCI deferred tax asset has displaced previously recognised temporary differences in the income statement. This de-recognition results in a £40m deferred tax charge in the income statement, with an offsetting £40m deferred tax credit in OCI. There is no change in the net deferred tax asset on the statement of financial position. See note 8 Deferred tax for further details.
- Cash contributions to RSA's UK pension schemes result in a tax deduction on a paid basis. The deduction may be capped in the current year under specific UK tax rules. The pension contributions funding the deficit arising from changes in actuarial assumptions are accounted for in OCI as was the pension buy-in transaction. The related tax credit for the contributions therefore arises in OCI with an offsetting tax charge in the income statement for use of this deduction against income statement profits. At 30 June 2023, the impact is a current tax charge of £16m (with no current tax impact on the statement of financial position). The current tax charge in the income statement arises principally as a result of the taxable profits on the IFRS17 transitional adjustment coming into the charge to tax in the income statement in 2023. The quantum of current year pension contributions mean that deferred tax assets are not utilised against the IFRS 17 profit, and the related deferred tax asset is being derecognised via the income statement rather than reversing into current tax (unlike the DTL). See below.
- A deferred tax credit related to the reversal of the deferred tax liability was created on transition to IFRS 17 in the UK (see note 8 Deferred tax). This is offset by an equivalent current tax charge on the IFRS 17 transitional adjustment coming into the charge to tax in 2023 (with no net income statement impact). This is recognised in the income statement because of the retrospective application of IFRS 17. The deferred tax asset set up to offset the deferred tax liability in the opening balance sheet has also been unwound in the income statement creating an offsetting deferred tax charge. The net result is therefore a current tax charge in the income statement. There is no change in the net UK deferred tax asset on the statement of financial position.

19. Share capital

The issued share capital of the Parent Company is fully paid and is summarised in the following table:

	30 June 2023		30 June 2022	
	Number	**£m**	Number	£m
Ordinary Shares of £1 each	**1,563,286,978**	**1,563**	1,563,286,790	1,563
Preference shares of £1 each	**125,000,000**	**125**	125,000,000	125
	1,688,286,978	**1,688**	1,688,286,790	1,688

The movement of Ordinary Shares in issue, their nominal value and the associated share premiums during the period are as follows:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2023	**1,563,286,973**	**1,563**	**282**
Capital injection from 2283485 Alberta Limited	**5**	**-**	**519**
At 30 June 2023	**1,563,286,978**	**1,563**	**801**

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2022	1,269,484,814	1,269	282
Capital injection from Regent Bidco Limited	293,801,976	294	-
At 30 June 2022	1,563,286,790	1,563	282

20. Tier 1 notes

On 27 March 2022, the Group redeemed the restricted Tier 1 notes at their principal amount (£275m) together with accrued and unpaid interest. The Tier 1 notes had a carrying value of £297m with the resulting gain of £22m being recognised directly in retained earnings.

The redemption of the Tier 1 notes was financed by a capital injection from the Group's parent company (see note 19).

21. Capital management

As at 30 June 2023 and 31 December 2022, the Group and its regulated insurance subsidiaries were in compliance with regulatory capital requirements. Refer to note 6 Risk and capital management of the 2022 Annual Report and Accounts for more details on the management of the Group's capital.

22. Additional information on the interim consolidated statement of cash flows

For the six month period ended	**30 June 2023 £m**	30 June 2022 £m
Adjustments for non-cash items		
Net losses (gains) on investment portfolio (Note 17)	62	(141)
Depreciation and impairment of property and equipment	11	10
Amortisation and impairment of intangible assets	25	21
Amortisation of investments	7	16
Defined benefit pension expense (Note 15)	14	4
Gain on disposal of business	-	(7)
Derecognition and disposal of intangibles	34	19
Foreign exchange gain (loss)	(62)	45
Other	1	(1)
	92	**(34)**
Changes in operating assets/liabilities		
Contributions to the defined benefit pension plans	(604)	(75)
Changes in insurance and reinsurance contracts	(46)	(66)
Other operating assets	(31)	68
Other operating liabilities	3	27
	(678)	**(46)**

23. Related party transactions

23.1 Transactions with parent company

The Group's parent company is 2283485 Alberta Limited (2022: Regent Bidco Limited), a wholly owned subsidiary of IFC, the ultimate controlling party.

During the six month period to 30 June 2023, the following related party transactions have taken place with 2283485 Alberta Limited:

- On 3 March, the Group received a capital injection from 2283485 Alberta Limited of £444m to fund contributions to the Group's two UK defined benefit pension plans.
- On 23 March, the Group received a capital injection from 2283485 Alberta Limited of £36m to fund contributions to the Group's two UK defined benefit pension plans.
- On 5 June, the Group received a capital injection from 2283485 Alberta Limited of £39m to fund the repurchase of issued debt.

During the six month period to 30 June 2022, the following related party transactions took place with Regent Bidco Limited:

- On 27 March 2022, the Group received a capital injection from 2283485 Regent Bidco Limited of £294m to fund repurchase of Tier 1 notes.

23.2 Other related party transactions

The Group has a reinsurance arrangement with Unifund Assurance Company (Unifund), a member of the IFC Group. Under the terms of the arrangement the insurance risk of Unifund's business is transferred to the Group. The Group pays a reinsurance commission in relation to the quota share agreement and the agreement covers Unifund's existing insurance liabilities and new written premium for all lines of business at a rate of 60%. The outstanding balances are secured against collateral assets, made up of assets held in trust and a letter of credit.

The Group has other reinsurance arrangements (some of which are secured against collateral assets) and transactions with Roins Holdings Limited and other entities that are part of the IFC Group, including its associates.

The Group holds ordinary shares in a company in which a Director of the Group is also a Director. The shares were purchased from a third party in the open market as part of the Group's routine investment strategy.

The amounts relating to the above related party transactions included in the interim condensed consolidated income statement for the six month period ended 30 June are provided in the table below:

	30 June 2023	30 June 2022 Restated[1]
	£m	£m
Income	**176**	179
Expenses	**212**	157

The amounts relating to the above related party transactions included in the interim condensed consolidated statement of financial position and the collateral pledged for the six month period ended 30 June are provided in the table below:

	30 June 2023	31 December 2022 Restated[1]
	£m	£m
Assets	**77**	66
Liabilities	**639**	**666**
Collateral pledged	**951**	960

[1]Restated for the adoption of IFRS 17. Refer to note 4. Adoption of new and revised accounting standards. Due to this restatement, annual comparative information is unaudited.

24. Alternative Performance Measures

IFRS reconciliation to management P&L

For the six month period ended 30 June 2023

£m	IFRS	Underwriting result	Investment result	Central costs	Business operating result	Other income and charges	Profit before tax
Insurance revenue	1,965	1,965			1,965		1,965
Insurance service expenses	(1,719)	(1,719)			(1,719)		(1,719)
Insurance service result from insurance contracts	**246**						
Allocation of reinsurance premiums	(450)	(450)			(450)		(450)
Amounts recoverable from reinsurers	320	320			320		320
Net expense from reinsurance contracts	**(130)**						
Insurance service result	**116**						
Net investment income	79		79		79		79
Net losses on investment portfolio	(62)					(62)	(62)
Net investment return	**17**						
Insurance finance income	28					28	28
Reinsurance finance expense	(5)					(5)	(5)
Net insurance financial result	**23**						
Other net gains	1					1	1
Other income and expenses	(27)	(34)		(7)	(41)	14	(27)
Acquisition, integration and restructuring costs	(70)					(70)	(70)
Other finance costs	(5)				-	(5)	(5)
Profit before tax	**55**	**82**	**79**	**(7)**	**154**	**(99)**	**55**
Income tax expense	(64)						
Loss for the period	**(9)**						
Attributable to:							
Owners of the Parent Company	(9)						

Reconciliation of Insurance revenue to Net written premiums	**2023 £m**
Insurance revenue	**1,965**
Movement in gross earned premium	(420)
Other income	(35)
Reinsurance written premiums	(115)
Revenue for internal contracts	50
Revenue measured under GMM	(70)
Net written premiums	**1,375**

For the six month period ended 30 June 2022 (restated)

£m	IFRS	Underwriting result	Investment result	Central costs	Business operating result	Other income and charges	Profit before tax
Insurance revenue	2,098	2,098			2,098		2,098
Insurance service expenses	(1,869)	(1,869)			(1,869)		(1,869)
Insurance service result from insurance contracts	**229**						
Allocation of reinsurance premiums	(444)	(444)			(444)		(444)
Amounts recoverable from reinsurers	322	322			322		322
Net expense from reinsurance contracts	**(122)**						
Insurance service result	**107**						
Net investment income	59		59		59		59
Net gains on investment portfolio	141					141	141
Net investment return	**200**						
Insurance finance expense	(6)					(6)	(6)
Reinsurance finance expense	(18)					(18)	(18)
Net insurance financial result	**(24)**						
Other net gains	19					19	19
Other income and expenses	(28)	(21)		(10)	(31)	3	(28)
Other finance costs	(5)					(5)	(5)
Acquisition, integration and restructuring costs	(45)					(45)	(45)
Profit before tax	**224**	86	59	(10)	135	89	224
Income tax expense	(32)						
Profit for the period	**192**						
Owners of the Parent Company	197						
Non-controlling interests	(5)						
	192						

Reconciliation of Insurance revenue to Net written premiums	**2022** **£m**
Insurance revenue	**2,098**
Movement in gross earned premium	127
Other income	(26)
Reinsurance written premiums	(569)
Revenue for internal contracts	54
Revenue measured under GMM	(123)
Net written premiums	**1,561**

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

The condensed set of financial statements has been prepared in accordance with the UK-adopted IAS 34 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

The interim management report includes a fair review of the information required by:

a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

Ken Norgrove
Chief Executive Officer
3 August 2023

Ken Anderson
Chief Financial Officer
3 August 2023

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP LIMITED ('the Company' and 'the Group')

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six month period ended 30 June 2023 which comprises the condensed consolidated statement of financial position, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, , the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six month ended 30 June 2023 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion relating to going concern

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

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Company to cease to continue as a going concern, and the above conclusions are not a guarantee that the Company will continue in operation.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the latest annual financial statements of the Group were prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Company and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusions, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Thomas Tyler

for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL

3 August 2023