Contents

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Direct Line Insurance Group plc (the "**Parent Company**") and its subsidiaries (the "**Group**") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("**IFRSs**") as issued by the International Accounting Standards Board ("**IASB**");
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom ("**UK**") Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated and Parent Company Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 45 of the Consolidated financial statements and related notes 1 to 15 on the Parent Company financial statements, excluding the capital adequacy disclosures in note 3 calculated in accordance with the Solvency II regime that are marked as unaudited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and UK adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("**FRC**") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group for the year are disclosed in note 10 to the consolidated financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – valuation of insurance liabilities: 1) The frequency, severity and inflationary assumptions for large bodily injury claims; and 2) Periodic payment orders ("**PPOs**") inflation and discount rates. – valuation of illiquid investments: 1) Commercial real estate loans, infrastructure debt and private placement bonds; and 2) Investment property; – disclosure of the impact of adoption of IFRS 17. Within this report, key audit matters are identified as follows: Newly identified; Increased level of risk; Similar level of risk; and Decreased level of risk.
Materiality	The materiality that we used for the Group financial statements was £24 million, which approximates to 1.0% of the shareholder's equity.
Scoping	Our Group audit scoping included two entities being subject to a full scope audit and a further two entities being subject to an audit of specified account balances. These four entities represent the principal business units and account for 97% of the Group's shareholder's equity, 100% of the Group's gross earned premium and 100% of the Group's insurance liabilities. We performed analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or an audit of specified balances.
Significant changes in our approach	During the year we have made the following changes to our audit approach: a. We updated our key audit matters to include inflation assumptions with regard to bodily injury claims and margins above the actuarial best estimate, removing our previously separate key audit matter on these margins; and b. We identified a new key audit matter relating to the risks arising from the opening balance sheet disclosure as a result of transitioning to IFRS 17. In direct response to the trading updates issued by the Group, we have further made the following changes to our audit approach: a. We reassessed our approach to determining materiality and changed our key benchmark from profit before tax to shareholders' equity including profit/loss for the period, resulting in a £4 million decrease to materiality applied; b. We increased our Group audit scoping to include a third entity subject to a full scope, rather than specified procedures; c. We changed our controls testing strategy in light of the economic environment and the Group's results; and d. We engaged additional internal specialists to assist us in performing audit procedures to address the incremental risks across the audit, including fair value and regulatory specialists.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- we obtained an understanding of the internal controls relating to management's going concern assessment process;
- we assessed the impact of the profit warnings issued during the year on management's control environment and forecasting and evaluated the impact on historical forecasts;
- we assessed the impact of management's actions in relation to the profit warnings on the future capital position of the Group;
- we assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Group;
- we assessed management's strategic plan and challenged management's underlying business plans and forecasts to support key forward-looking assumptions such as the Group's growth rate and discount rate given our understanding of the Group and its industry; and
- we evaluated management's reverse stress test; independently performing sensitivity analysis to assess the impact of various scenarios on the Group's liquidity and solvency headroom.

4. Conclusions relating to going concern continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of insurance liabilities

Refer to page 117 (Audit Committee Report), page 186 (Accounting policies), page 197 (Notes to the consolidated financial statements - note 2.3) and page 232 (Notes to the consolidated financial statements - note 35).

The Group's gross insurance liabilities total £3.7 billion (2021: £3.7 billion) and represent the single largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to high levels of estimation uncertainty. Consequently, small changes in these methods or assumptions can materially impact the valuation of these liabilities. We have identified the following three key areas of focus for our audit given their significance to the Group's result and the high level of estimation uncertainty. We have also identified these as potential fraud risk areas.

5.1.1 The frequency, severity and inflationary assumptions for bodily injury claims

Key audit matter description

The frequency and severity of bodily injury claims have a significant impact on the valuation of the insurance liabilities and the setting of these assumptions is driven by a variety of factors. These factors include the completeness and accuracy of source data, the transparency of any changes in the reporting of bodily injury claims, and actuarial assumptions being consistent with emerging data, market factors and the Group's reserving policy. As a result of these factors, there is a significant level of estimation uncertainty in the valuation of these claims, which increases the susceptibility of the balance to material misstatement due to error and fraud.

Furthermore, reduced traffic volumes throughout accident years 2020 and 2021 and a return to normality during 2022 increased inherent uncertainty underlying the estimation of the ultimate number of non-large bodily injury claims in the most recent cohorts of data. This uncertainty is further amplified given the long-tailed nature of bodily injury claims. Further, continued uncertainty regarding the impact of the Whiplash Reform in May 2021 increases inherent uncertainty underlying bodily injury claims.

Moreover, we have identified that inflationary assumptions have a significant impact on the valuation of bodily injury insurance liabilities and there is a significant level of estimation uncertainty inherent with these assumptions in light of the macroeconomic environment. The allowance for inflation has been made by the Group within both their best estimate and margin above the best estimate.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of relevant controls.

In order to gain assurance over the completeness and accuracy of source data used in the Group's actuarial calculations and by our in-house actuarial specialists in performing our work, we have evaluated the data reconciliation controls and re-performed reconciliations on the actuarial data back to the financial ledger and source systems.

Having done this, we worked with our actuarial specialists to:

- inspect and challenge the reserving process in relation to bodily injury claims undertaken by assessing relevant documentation and meeting with the Actuarial Director and their team;
- inspect and challenge the Group's documented methodology and key assumptions in respect of the prior years as well as the current year, with particular reference to inflationary impacts. This included:
    - using our in-house reserving software to help us challenge the Group's response to emerging claims trends;
    - conducting sensitivity testing on the methodology and assumptions used in the current year selections and challenging changes from prior year;
    - comparing the Group's cost per claim and frequency diagnostics to market benchmarks and independent reserve review results;
- analyse the consistency in reserving strength and reserve releases in comparison with prior years;
- leverage third party economic studies to challenge the appropriateness of management's adverse scenarios, with a specific focus on care worker wage inflation given the sensitivity of the Group's bodily injury claims to this assumption, whilst looking back to outcomes from previous economic downturns; and
- perform a 'stand back' test to challenge the reasonableness of the overall insurance liabilities between periods in light of the level of uncertainties that existed at each respective reporting date.

Key observations

We have concluded that the assumptions used in the calculation of the bodily injury claims reserves are reasonable.

5.1.2 Periodic Payment Orders ("PPOs") inflation and discount rates

Key audit matter description

The Group is required to settle a proportion of large bodily injury claims as PPOs rather than lump sum payments. The valuation of PPOs has a material impact on the financial statements, with liabilities totalling £632.8 million (2021: £757.8 million) on a discounted gross basis as detailed in note 35.

Given the ongoing uncertainty in the UK's inflation environment and investment markets, the selection of the inflation and discount rate assumptions is highly judgemental. The PPOs are sensitive to economic assumptions selected and as at 31 December 2022, the Group valued PPOs using an inflation rate curve linked to the PRA published risk free rate (2021: fixed 3.5%). Additionally, the Group used a discount rate curve linked to the investment yield of assets used to match the PPO liabilities (2021: fixed 3.5%). These assumptions represent a key source of estimation uncertainty for the Group, which increases the susceptibility of the balance to material misstatement due to error or fraud.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of management's process for setting these assumptions and obtained an understanding of the relevant controls surrounding the setting of the inflation rates across the book of the business and the discount rate used in the PPO valuation, namely the challenge and approval of these assumptions by the reserving committee.

We have worked with our actuarial specialists to:

- Inspect and challenge management's PPO inflation assumption by evaluating relevant documentation, meeting with the Actuarial Director and their team;
- Inspect and evaluate management's sensitivity testing on the PPO inflation assumption, requesting additional sensitivity testing from management where needed; and
- Inspect and challenge management on the methodology and rational for deriving the discount rate by benchmarking the selected discount rate against external sources and comparing with market economic data.

In addition, we performed the following procedure:

- worked with our valuations specialist to evaluate the reasonableness of the selected discount rate curve.

Key observations

We have determined that the inflation and discount rate assumptions used in the calculation of the PPO claims reserve are reasonable.

5.2 Valuation of illiquid investments

Refer to page 117 (Audit Committee Report), pages 188 and 189 (Accounting policies) and pages 224 and 229 (Notes to the consolidated financial statements - notes 20 and 28).

In the current year, we continue to identify the valuation of illiquid investments, specifically the commercial real estate loans, infrastructure debt, private placement bonds and investment property investments as a key audit matter as described below.

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds

Key audit matter description

We have identified a key audit matter in relation to these credit portfolios totalling £535.5 million (2021: £542.8 million).

Given the Group continues to recognise and measure financial instruments under IAS 39 'Financial Instruments: Recognition and Measurement', these instruments are measured at amortised cost and require the recognition of an impairment when an incurred loss event arises. Significant management judgement is required in determining if an incurred loss event has occurred and, in the instance an event has occurred, there is significant estimation uncertainty in determining the impairment charge.

We deem there to be a continuing risk of default or delinquency on these less liquid assets owing to high and sustained levels of uncertainty in the UK economy from rising inflation and interest rates.

5. Key audit matters continued

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds continued

How the scope of our audit responded to the key audit matter

We have obtained an understanding of and tested the relevant controls that mitigate the risk over the valuation of illiquid investments. Our work included attendance at the year-end impairment review meeting in order to observe the operation of a key management review control.

In addition, we performed the following procedures:

- tested a sample of interest payments to banks during the year to test for default or delinquency in interest payments;
- utilised market indices to identify commercial real estate loans at risk and inspected the tenancy breakdowns for potential risks of store closure given the current economic issues facing the UK high street;
- challenged management on loans of interest where indicators could point to issuer financial difficulty and obtained evidence to help assess whether the management's conclusion was reasonable; and
- engaged our complex pricing specialists to determine an independent fair value of these assets to identify any significant decreases in value below book cost.

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material impairment.

5.2.2 Investment property

Key audit matter description

The investment properties held by the Group comprise retail, retail warehouse, supermarkets and foodstores, industrial, hotel and alternative properties. As noted in disclosure note 20, the total value as at 31 December 2022 is £278.5 million (2021: £317.0 million). Given the current UK macroeconomic environment with inflationary pressures and increasing interest rates affecting the cost of debt, we have identified the methodology and assumptions used for valuing the investment property portfolio as a key audit matter in the current year. In light of the volatility across the whole investment property market, we have expanded the scope of the key audit matter to cover the whole portfolio (£278.5 million) rather than just the retail and alternative sectors identified in the prior year (2021: £101.6 million).

We considered the valuation of the investment properties to be a key audit matter as the determination of fair value involves significant judgement by the external valuation experts. Valuation methodology for investment properties are subjective in nature and involve various key assumptions. The use of different valuation methodology and assumptions could produce significantly different estimates of fair value. With the volatility in the UK financial market, the property valuers can attach less weight to previous market evidence in determining a fair value. This leads to greater levels of estimation uncertainty in determining the valuation.

How the scope of our audit responded to the key audit matter

We have obtained an understanding of and tested the relevant control related to the annual meeting with management's external valuation expert; this is where management review and challenge the assumptions and methodologies used in determining the fair value. In addition, we performed the following procedures:

- worked with our real estate specialists who challenged the management's expert on the estimated rental value, yield and capitalisation rate assumptions and methodologies used in the valuation of the properties;
- assessed the competence, capability and objectivity of management's expert;
- tested the completeness and accuracy of the data inputs used in the valuation process performed by management and their external valuer; and
- tested the data inputs used in the valuation model for investment properties, by agreeing occupation rates, unit sizes, contracted rent to the underlying signed agreements and property reports. We then re-performed the calculation of the yields applied using this data.

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material misstatements within the investment property portfolio fair value.

5.3 Disclosure of the impact of the adoption of IFRS 17 (!)

Key audit matter description

On 1 January 2023, the Group transitioned to IFRS 17: 'Insurance Contracts' which replaced the existing standard for insurance contracts, IFRS 4 'Insurance Contracts'.

The estimated transitional impact is disclosed in Note 1 to the financial statements in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The disclosures in 2022 are intended to provide users with an understanding of the estimated impact of the new standard and, as a result, are more limited than the disclosures to be included in the first year of adoption, being 2023.

We have deemed the disclosure of the impact of the adoption of IFRS 17 a key audit matter as this is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. Furthermore, the new standard has introduced a number of significant changes, including new requirements regarding the measurement and presentation of insurance contracts and related account balances and classes of transactions.

The Group has disclosed that it adopted the full retrospective approach on transition to IFRS 17 and applied the Premium Allocation Approach ("**PAA**") to the measurement of groups of insurance contracts issued and groups of reinsurance contracts held at the transition date. The Group took advantage of the accounting policy choice to expense insurance acquisition cash flows as incurred and determined the discount rates to apply to future cash flows using the "bottom-up" approach.

In order to meet the requirements of the new standard, significant changes have also been made to the systems, processes and controls with effect from 1 January 2023.

How the scope of our audit responded to the key audit matter

While further testing of the financial impact will be performed as part of our 2023 year end audit, we have performed the following audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- gained a detailed understanding of the process to estimate the transitional adjustment and obtained an understanding of relevant controls;
- challenged the appropriateness of key technical accounting decisions, judgments, assumptions and elections made in determining the estimate against the requirements of the standard;
- involved our internal actuarial specialists in performing procedures to challenge the Group's IFRS 17 calculation models, including those related to the testing of PAA eligibility, the estimate of the fulfilment cash flows, the risk adjustment and discounting; and
- tested the IAS 8 disclosures related to the transition impact and reconciled the disclosed impact to underlying accounting records.

Key observations

Based on the procedures described above, we consider the assumptions, methodologies and models applied in preparing the IFRS 17 transition disclosure to be reasonable.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

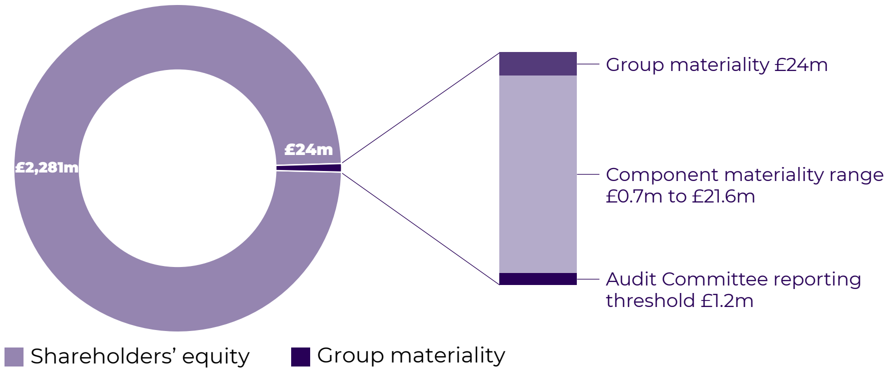
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£24.0 million (2021: £28.0 million)	£21.6 million (2021: £25.2 million)
Basis for determining materiality	The materiality approximates 1.0% (2021 equivalent: 1.0%) of shareholders' equity including profit/loss for the period. In the prior year, we used the three-year average profit before tax, excluding the impact of the Ogden discount rate change to minus 0.25% in the 2019 results. However, given the profit warnings, within the trading updates, issued in the year and the increased focus on the capital position of the Group, we have changed benchmark to shareholders' equity.	The materiality approximates 1.0% (2021 equivalent: 1.0%) of shareholders' equity and is capped at 90% (2021: 90%) of Group materiality.
Rationale for the benchmark applied	In light of the economic circumstances identified in the current year, the cancellation of the dividend and the trading updates issued by the Group, we determined that the critical benchmark for the Group was no longer average profit before tax. Instead, we determined that the critical benchmark for the Group was shareholders' equity (including profit/loss for the period) given the focus on distributable reserves and future dividend payment capability. We also considered this measure in conjunction with gross earned premium, with our materiality equating to 0.8% (2021: 0.9%) of gross earned premium.	We determined that the critical benchmark for the Parent Company was shareholders' equity including profit/loss for the period. This is because the Parent Company is not a trading entity but rather received dividend income from its subsidiaries. When determining materiality for the Parent Company, we also considered the appropriateness of this materiality for the consolidation of this set of financial statements to the Group's results.

6. Our application of materiality continued

6.1 Materiality continued

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the components proportion of the chosen benchmark. This is capped at the lower of 90% of Group materiality and the component materiality determined for a standalone audit. The main UK insurance trading entity, U K Insurance Limited, which makes up 100% of Group gross earned premium and 99% of Group insurance liabilities, is scoped to a component materiality of £21.6 million (2021: £25.2 million). Component materiality for other entities within the scope of our Group audit ranged from £0.7 million to £21.6 million (2021: £0.9 million to £25.2 million).



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	67.5% (2021: 70%) of Group materiality	67.5% (2021: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the impact of the trading updates on the Group; – we have audited the Group for a number of years and so have knowledge of both the Group and the environment it operates in; – our ability to rely on controls over a number of significant business processes; and – our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods, and our assessment that these were not likely to recur in the current period.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.2 million (2021: £1.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

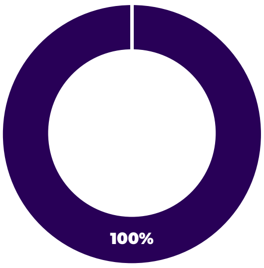
7.1 Identification and scoping of components

The scope of our Group audit was determined by obtaining an understanding of the Group and its environment, including group wide controls and assessing the risks of material misstatement at Group level.

Consistent with the prior period, this resulted in two entities being subject to a full scope audit and a further two were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations. All entities within scope of the Group audit are based in the UK.

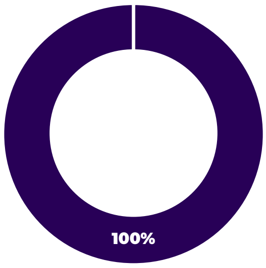
These four entities represent the principal trading and service operations of the Group and account for 97% (2021: 97%) of the Group's shareholder's equity, 100% (2021: 100%) of the Group's gross earned premium and 100% (2021: 100%) of the Group's insurance liabilities. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Gross earned premium



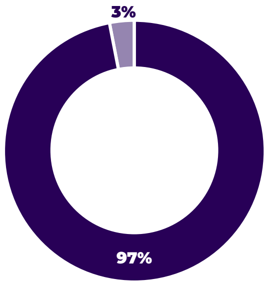
Full audit scope

Insurance liabilities



Full audit scope

Shareholders' equity



Full audit scope
Review at group level

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team directly performed the audit work for all of the entities listed above, including the Parent Company.

7.2 Our consideration of the control environment

IT Controls

In planning our 2022 audit, we identified 19 systems that were material to the Group's financial reporting processes. These systems handled data relating to premiums, claims, expenses and payroll and we intended to rely on the IT and business controls associated with these systems. Having worked with our in-house IT specialists to assess the operating effectiveness of the IT controls associated with these systems, as well as the wider general IT control environment across the Group, we were able to rely upon the IT controls associated with 17 systems, with 1 system in the process of establishing controls and 1 system having insufficient evidence.

Business processes and financial reporting controls

In planning our 2022 audit, we identified 21 business processes that were material to the Group's financial reporting and which we tested. These processes spanned the Group's material transactions and account balances including the premiums, claims, reinsurance, expenses, payroll, investments and intangibles processes and part of the reserving process relating to reconciliation of data. Of these, we intended to directly rely on the business controls associated with 19 of these processes. Further, in response to the heightened engagement risk we changed our control rotation strategy, and tested 2 more processes in the current year for operating effectiveness. Having completed our testing over the operating effectiveness of business controls associated with these processes, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with 12 processes planned.

Across 8 of these business processes, we identified deficiencies and across a further 2, we identified insights which we communicated to those charged with governance and these have been remediated or are in the process of being remediated.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including management's implementation of the Climate Executive Steering Group and Group sustainability framework. We have assessed whether these initiatives undertaken by management are aligned with the Climate Change Roadmap developed by the Association of British Insurers. Management has performed a risk assessment for climate-related risks, further details are disclosed in the Strategic report. Based on the risk assessment, management has concluded that the impact of climate-related risks is not material to the financial statements in the short term as disclosed in note 3 to the financial statements. We have performed a risk assessment of the financial impact of climate risks, utilising the support of a climate change risk specialist, on the financial statements and concluded the risks of material misstatement due to climate risk factors are remote. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation.

We read the disclosure relating to climate risks in the Planet section of the Annual Report and considered whether they were materially consistent with our understanding of the business and the financial statements.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company'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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was reviewed by the Audit Committee on 2 November 2022;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, real estate, valuations, pensions, IT, forensic and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of the insurance liabilities. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence, regulatory solvency requirements such as those under the relevant Solvency II requirements and those required by the PRA, FCA and environmental regulations.

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance liabilities a key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enhancing our stand-back assessments for accounting judgements, increasing and broadening the scope of our fraud inquiries in response to the trading updates issued by management;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and FCA;
- meeting directly with the PRA and FCA and engaging a regulatory specialist to support our performance of audit procedures around regulatory compliance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13. Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 164 and 165;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 92 and 93;
- the Directors' statement on fair, balanced and understandable set out on page 114;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 114;
- the section of the Annual Report and Accounts that describes the review of effectiveness of risk management and internal control systems set out on page 198; and
- the section describing the work of the Audit Committee set out on page 116.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– we have not received all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
– the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit Committee of Royal Bank of Scotland Group plc ("**RBSG**"), which at the time owned Direct Line Insurance Group plc, we were appointed by the Board of Directors of RBSG on 21 March 2000 to audit the financial statements for the year ending 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 23 years, covering the years ending 31 December 2000 to 31 December 2022.

15.2 Consistency of the audit report with the additional reports to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority ("**FCA**") Disclosure Guidance and Transparency Rule ("**DTR**") 4.1.14R, these financial statements form part of the European Single Electronic Format ("**ESEF**") prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ("**ESEF RTS**"). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

ADAM ADDIS, ACA

SENIOR STATUTORY AUDITOR

FOR AND ON BEHALF OF DELOITTE LLP

LONDON, UNITED KINGDOM

21 March 2023

Consolidated Income Statement
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Gross earned premium		**3,132.2**	3,168.0
Reinsurance premium		**(165.7)**	(210.6)
Net earned premium	5	**2,966.5**	2,957.4
Investment return	6	**51.6**	146.3
Instalment income		**92.4**	97.3
Other operating income	7	**55.3**	46.7
Total income		**3,165.8**	3,247.7
Insurance claims	8	**(2,218.0)**	(1,915.3)
Insurance claims (payable to)/recoverable from reinsurers	8	**(16.6)**	196.6
Net insurance claims	8	**(2,234.6)**	(1,718.7)
Commission expenses	9	**(211.1)**	(240.9)
Operating expenses (including restructuring and one-off costs)	10	**(744.8)**	(807.8)
Total expenses		**(955.9)**	(1,048.7)
Finance costs	11	**(20.4)**	(34.3)
(Loss)/profit before tax		**(45.1)**	446.0
Tax credit/(charge)	12	**5.6**	(102.3)
(Loss)/profit for the year attributable to the owners of the Company		**(39.5)**	343.7
(Loss)/earnings per share:			
Basic (pence)	15	**(4.3)**	24.5
Diluted (pence)	15	**(4.3)**	24.1

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
(Loss)/profit for the year attributable to the owners of the Company		**(39.5)**	343.7
Other comprehensive loss			
Items that will not be reclassified subsequently to the income statement:			
Remeasurement (loss)/gain on defined benefit pension scheme	27	**(9.8)**	3.8
Tax relating to items that will not be reclassified	13	**2.5**	(0.8)
		(7.3)	3.0
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**0.2**	(0.3)
Fair value loss on AFS investments	32	**(295.8)**	(84.1)
Add: net loss/(gain) on AFS investments transferred to income statement on disposals	32	**24.9**	(7.9)
Tax relating to items that may be reclassified	32	**67.2**	17.1
		(203.5)	(75.2)
Other comprehensive loss for the year net of tax		**(210.8)**	(72.2)
Total comprehensive (loss)/income for the year attributable to the owners of the Company		**(250.3)**	271.5

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Goodwill and other intangible assets	17	**822.2**	822.5
Property, plant and equipment	18	**83.7**	113.8
Right-of-use assets	19	**73.0**	76.1
Investment property	20	**278.5**	317.0
Reinsurance assets	22	**1,101.7**	1,211.8
Current tax assets		**71.9**	14.4
Deferred tax assets	12	**62.0**	—
Deferred acquisition costs	23	**188.3**	186.6
Insurance and other receivables	24	**791.6**	762.8
Prepayments, accrued income and other assets	25	**105.8**	125.1
Derivative financial instruments	26	**31.3**	35.9
Retirement benefit asset	27	**1.6**	12.1
Financial investments	28	**3,698.5**	4,633.6
Cash and cash equivalents	29	**1,003.6**	955.7
Assets held for sale	30	**40.9**	41.2
Total assets		**8,354.6**	9,308.6
Equity			
Shareholders' equity		**1,934.0**	2,550.2
Tier 1 notes	33	**346.5**	346.5
Total equity		**2,280.5**	2,896.7
Liabilities			
Subordinated liabilities	34	**258.6**	513.6
Insurance liabilities	35	**3,654.3**	3,680.5
Unearned premium reserve	36	**1,462.7**	1,500.7
Borrowings	29	**65.2**	59.2
Derivative financial instruments	26	**29.6**	19.5
Provisions	38	**64.3**	96.4
Trade and other payables, including insurance payables	39	**457.8**	457.3
Lease liabilities	42	**81.6**	84.2
Deferred tax liabilities	13	**—**	0.5
Total liabilities		**6,074.1**	6,411.9
Total equity and liabilities		**8,354.6**	9,308.6

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2023.

They were signed on its behalf by:

NEIL MANSER

CHIEF FINANCIAL OFFICER

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital (note 31) £m	Employee trust shares £m	Capital reserves (note 32) £m	AFS revaluation reserve (note 32) £m	Foreign exchange translation reserve £m	Retained earnings £m	Shareholders' equity £m	Tier 1 notes (note 33) £m	Total equity £m
Balance at 1 January 2021	148.9	(40.3)	1,451.1	83.9	–	1,056.1	2,699.7	346.5	3,046.2
Profit for the year	–	–	–	–	–	343.7	343.7	–	343.7
Other comprehensive (loss)/ income	–	–	–	(74.9)	(0.3)	3.0	(72.2)	–	(72.2)
Total comprehensive (loss)/ income for the year	–	–	–	(74.9)	(0.3)	346.7	271.5	–	271.5
Dividends and appropriations paid (note 14)	–	–	–	–	–	(317.4)	(317.4)	–	(317.4)
Shares acquired by employee trusts	–	(20.3)	–	–	–	–	(20.3)	–	(20.3)
Shares cancelled following buyback (note 31)	(3.7)	–	3.7	–	–	(101.0)	(101.0)	–	(101.0)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	17.0	17.0	–	17.0
Shares distributed by employee trusts	–	19.2	–	–	–	(19.2)	–	–	–
Tax on share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Total transactions with equity holders	(3.7)	(1.1)	3.7	–	–	(419.9)	(421.0)	–	(421.0)
Balance at 31 December 2021	145.2	(41.4)	1,454.8	9.0	(0.3)	982.9	2,550.2	346.5	2,896.7
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(39.5)**	**(39.5)**	**–**	**(39.5)**
Other comprehensive (loss)/ income	**–**	**–**	**–**	**(203.7)**	**0.2**	**(7.3)**	**(210.8)**	**–**	**(210.8)**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**(203.7)**	**0.2**	**(46.8)**	**(250.3)**	**–**	**(250.3)**
Dividends and appropriations paid (note 14)	**–**	**–**	**–**	**–**	**–**	**(314.5)**	**(314.5)**	**–**	**(314.5)**
Shares acquired by employee trusts	**–**	**(11.0)**	**–**	**–**	**–**	**–**	**(11.0)**	**–**	**(11.0)**
Shares cancelled following buyback (note 31)	**(2.1)**	**–**	**2.1**	**–**	**–**	**(50.1)**	**(50.1)**	**–**	**(50.1)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**9.5**	**9.5**	**–**	**9.5**
Shares distributed by employee trusts	**–**	**13.4**	**–**	**–**	**–**	**(13.4)**	**–**	**–**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Total transactions with equity holders	**(2.1)**	**2.4**	**2.1**	**–**	**–**	**(368.3)**	**(365.9)**	**–**	**(365.9)**
Balance at 31 December 2022	**143.1**	**(39.0)**	**1,456.9**	**(194.7)**	**(0.1)**	**567.8**	**1,934.0**	**346.5**	**2,280.5**

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Net cash (used by)/generated from operating activities before investment of insurance assets	40	**(60.3)**	271.8
Cash generated from investment of insurance assets	40	**860.5**	167.2
Net cash generated from operating activities		**800.2**	439.0
Cash flows used in investing activities			
Purchases of goodwill and other intangible assets	17	**(108.4)**	(109.4)
Purchases of property, plant and equipment	18	**(11.7)**	(29.3)
Proceeds on disposals of assets held for sale		**19.3**	—
Net cash used in investing activities		**(100.8)**	(138.7)
Cash flows used in financing activities			
Dividends paid	14	**(297.9)**	(300.8)
Appropriations paid	14	**(16.6)**	(16.6)
Finance costs (including lease interest)		**(23.0)**	(31.4)
Principal element of lease payments		**(8.9)**	(101.9)
Purchase of employee trust shares		**(11.0)**	(20.3)
Redemption of subordinated Tier 2 notes	40	**(250.0)**	—
Shares purchased in buyback	31	**(50.1)**	(101.0)
Net cash used in financing activities		**(657.5)**	(572.0)
Net increase/(decrease) in cash and cash equivalents		**41.9**	(271.7)
Cash and cash equivalents at the beginning of the year	29	**896.5**	1,168.2
Cash and cash equivalents at the end of the year	29	**938.4**	896.5

The attached notes on pages 184 to 241 form an integral part of these consolidated financial statements.

Corporate information

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

The principal activity of the Group is the provision of general insurance.

1. Accounting policies

Basis of preparation

As required by the Companies Act 2006, the Group's consolidated financial statements are prepared in accordance with IFRSs issued by the IASB as adopted by the UK. The Group has elected to prepare its parent entity financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale ("**AFS**") and equity investments held at fair value through profit or loss ("**FVTPL**") financial assets; investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 43); and assets held for sale which are measured at the lower of carrying amount and fair value less costs to sell.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The policies set out below have been applied consistently throughout the years ended 31 December 2022 and 31 December 2021 to items considered material to the consolidated financial statements.

The Company's financial statements and the Group's consolidated financial statements are presented in sterling, which is the functional currency of the Company and the Group.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The trading update that was approved by the Board of Directors and announced to the stock market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and further increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to improve capital strength. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3. This covers insurance, market and credit risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle, which runs until 2026, The Group's Risk Function has carried out an assessment of the risks to the strategic plan ("the **Plan**") and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, delay in pricing actions, increase in operating expenses and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% with the Group and market response delayed by six months;
- delay in pricing: future initiatives deliver 50% of expected value;
- increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives; and
- fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Group's and U K Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the financial statements. The insurance risk note (note 3.3.1) sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note (note 3.3.2) sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2023 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Adoption of new and revised standards

The Group has adopted the following new amendments to IFRSs and International Accounting Standards ("**IASs**") that became mandatorily effective for the Group for the first time during 2022. None of the changes have a material impact for the Group.

In May 2020, the IASB issued narrow-scope amendments to three standards:

- Amendments to IFRS 3 'Business Combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;
- Amendments to IAS 16 'Property, Plant and Equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss; and
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Also, in May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018-2020' which makes minor amendments to:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards' which simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS standards later than its parent;
- IFRS 9 'Financial Instruments' – this amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf; and
- IFRS 16 'Leases' which removes the illustration of payments from the lessor relating to leasehold improvements.

1.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities that are controlled by the Group at 31 December 2022 and 31 December 2021. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing whether the Group controls another entity, the existence and effect of the potential voting rights that are currently exercisable or convertible are considered.

A subsidiary acquired is included in the consolidated financial statements from the date it is controlled by the Group until the date the Group ceases to control it. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at fair value.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation.

1.2 Foreign currencies

Group entities record transactions in the currency of the primary economic environment in which they operate (their functional currency), translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the income statement.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in the income statement except for differences arising on AFS non-monetary financial assets and equity investments held at fair value through other comprehensive income ("**FVOCI**"), which are recognised in other comprehensive income.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in the consolidated statement of comprehensive income. The amount accumulated in equity is reclassified from equity to the consolidated income statement on disposal or partial disposal of a foreign operation.

1.3 Contract classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished.

1.4 Revenue recognition

Premiums earned

Insurance and reinsurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium reserve, which represents the proportion of the premiums incepted in the year or prior periods that relate to periods of insurance cover after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy on a daily basis, a monthly basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Cash back payments to policyholders under motor telematics policies represent a reduction in earned premiums.

1. Accounting policies continued

1.4 Revenue recognition continued

Investment return

Interest income on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

Rental income from investment property is recognised in the income statement on a straight-line basis over the period of the contract.

Dividend income is recognised when the right to receive payment is established.

Instalment income

Instalment income comprises the interest income earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. Interest is earned using an effective interest rate method over the term of the policy.

Other operating income

Vehicle replacement referral income (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Vehicle replacement referral income comprises fees recognised at a point in time in respect of referral income received when a customer or a non-fault policyholder (claimant) of another insurer has been provided with a hire vehicle from a preferred supplier.

Income is recognised when the customer or claimant has been provided with a vehicle by the supplier.

Revenue from vehicle recovery and repair services (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Fees in respect of services for vehicle recovery and income from salvage are recognised at a point in time on satisfaction of performance obligations. The cost of providing the service is incurred as the service is rendered.

The Group's income also comprises vehicle repair services provided to other third-party customers. Income in respect of repairs to vehicles is recognised upon completion of the repair obligations. The price is determined using market rates for the services and materials used after discounts have been deducted where applicable.

Revenue from any goods provided are accounted for at the point of sale.

Legal services income (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Legal services income represents the amount charged to clients for professional services provided during the year including recovery of expenses but excluding value added tax. Income relating to variable legal services fees is recognised on a best estimate basis.

Other income (accounted for in accordance with IFRS 4 'Insurance Contracts')

Other income includes arrangement and administration fee income. Arrangement services are provided at a point in time as the benefits from obtaining the insurance policy occur at a specific time. The customer benefits from administration services throughout the policy period; as the Group performs its obligation on an as-needed basis, the allocated element of administration services are spread evenly over the term of the policy.

1.5 Insurance claims

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries.

Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by periodic payment orders ("**PPOs**") established under the Courts Act 2003.

A court can award damages for future pecuniary loss in respect of personal injury, or for other damages in respect of personal injury and may order that the damages are wholly or partly to take the form of PPOs. These are covered in more detail in note 2.3. Costs for both direct and indirect claims handling expenses are also included.

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. When calculating the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate the value of incurred claims (gross and net) at the balance sheet date. Also included in the estimation of incurred claims are factors such as the potential for judicial or legislative inflation.

Provisions for more recent claims make use of techniques that incorporate expected loss ratios and average claims cost (adjusted for inflation) and frequency methods. As claims mature, the provisions are increasingly driven by methods based on actual claims experience. The approach adopted takes into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is generated internally and reconciled to the accounting data.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels and the estimation of future claims handling costs. Actual claims experience may differ from the historical pattern on which the actuarial best estimate is based and the cost of settling individual claims may exceed that assumed. As a result, the Group sets reserves based on a management best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This amount is recorded within claims provisions.

A liability adequacy provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts. The expected value is determined by reference to recent experience and allowing for changes to the premium rates.

The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.6 Reinsurance

The Group has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk.

The Group cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by product line. Outward reinsurance premiums and claims are generally accounted for in the same accounting period as the direct business to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Recoveries in respect of PPOs are discounted for the time value of money.

A reinsurance bad debt provision is assessed in respect of reinsurance debtors to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly and this is taken as an indication of a reinsurer's difficulty in meeting its obligations under the reinsurance contracts. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty default risk exposure to long-term reinsurance assets particularly in relation to PPOs. Changes in the provision affect the Group by changing the carrying value of the net reinsurance asset with the movement being recognised in the income statement.

1.7 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs deferred are direct advertising expenditure, directly attributable administration costs, commission paid and costs associated with telesales and underwriting staff.

1.8 Restructuring and one-off costs

Restructuring costs are costs incurred in respect of those business activities which have a material effect on the nature and focus of the Group's operations. One-off costs are costs that are non-recurring in nature.

1.9 Goodwill and other intangible assets

Acquired goodwill, being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries is included in the balance sheet category "goodwill and other intangible assets". The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement over the assets' economic lives using methods that best reflect the pattern of economic benefits and is included in operating expenses. The estimated useful economic lives for software development costs are up to 10 years.

Expenditure on internally generated goodwill and indirect advertising costs is written off as incurred. Direct costs relating to the development of internal-use computer software and associated business processes are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended.

During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads.

1.10 Property, plant and equipment

Items of property, plant and equipment (except investment property – see note 1.13) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold and leasehold buildings	50 years or the period of the lease if shorter
Vehicles	3 years
Computer equipment	Up to 5 years
Other equipment, including property adaptation costs	2 to 15 years

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the disposal proceeds, if any, and the carrying amount of the item.

1.11 Right-of-use assets ("ROU") and lease liabilities

Where the Group is a lessee

At inception, the Group assesses whether a contract contains a lease arrangement, which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Group recognises a ROU asset and a lease liability at the commencement of the lease (when the underlying asset is available for use), except for short-term leases of 12 months or less and low-value leases which are expensed on a straight-line basis in the income statement. The ROU asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. The ROU asset is depreciated over the lease term, or its economic useful life if shorter, and is subject to impairment testing if there is an indicator of impairment. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the measurement of the lease.

1. Accounting policies continued

1.11 Right-of-use assets ("ROU") and lease liabilities continued

Where the Group is a lessee continued

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield-to-maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the ROU asset, when there is a change in future lease payments, terms or reassessment of options.

The Group's property leases mainly relate to office space and vehicle repair centres. Leases in respect of motor vehicles relate to recovery and replacement vehicles, and management cars. The Group also leases certain IT equipment which is not a significant portion of the total leased asset portfolio.

Where the Group is a lessor

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

Where assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable.

1.12 Impairment of intangible assets, goodwill and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets, goodwill property, plant and equipment or ROU assets are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any. Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that it might be impaired. If an asset does not generate cash flows that are independent of those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("**CGU**") to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value-in-use.

Value-in-use is the present value of future cash flows from the asset or CGU, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset or CGU that have not been reflected in the estimation of future cash flows.

If the recoverable amount of an intangible or a tangible asset is less than its carrying value, an impairment loss is recognised immediately in the income statement and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss on intangible assets, property, plant and equipment or ROU assets is recognised as it arises provided the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

1.13 Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations completed quarterly by independent registered valuers and in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the income statement.

Investment property is derecognised when it has been either disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

1.14 Financial assets

Financial assets are classified as available-for-sale, held-to-maturity, designated at FVTPL, or loans and receivables.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the date that the Group commits to purchase or sell the asset.

Available-for-sale ("**AFS**")

Financial assets can be designated as AFS on initial recognition. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences, resulting from translating the amortised cost of foreign currency monetary AFS financial assets, are recognised in the income statement, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the income statement.

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's-length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

AFS financial assets include insurtech-focused equity funds which are neither classified as held for trading nor designated at FVTPL.

Held-to-maturity ("**HTM**")

Non-derivative financial assets not designated as AFS, or loans and receivables with fixed or determinable payments and fixed maturity, where the intention and ability to hold them to maturity exists, are classified as HTM.

Subsequent to initial recognition, HTM financial assets are measured at amortised cost using the effective interest rate method less any impairment losses.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or HTM. Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

Equity investments held at FVTPL

Quoted equity investments are designated upon initial recognition at FVTPL. Dividends are included in investment return in the income statement when the right of payment has been established. Equity investments held at FVTPL are held on the balance sheet at fair value with net changes in fair value included within investment return in the income statement.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

AFS

When a decline in the fair value of a financial asset classified as AFS has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value.

Impairment losses on AFS equity instruments are not reversed through profit or loss, but those on AFS debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

HTM or loans and receivables

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM or loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually, where significant, or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces, and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

Insurance receivables

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from third parties where they have collected or are due to collect the money from the policyholder.

Receivables also include amounts due in respect of the provision of legal services.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of three months, a bad debt provision is made. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the income statement and the bad debt provision is released back to the income statement.

Derivatives and hedging

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

Hedge relationships are formally documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows and fair values attributable to the hedged risk, consistent with the documented risk management strategy, or if the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued.

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

In a fair value hedge, the gain or loss on the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the income statement and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive the cash flows from that asset have expired or when the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of ownership of the asset.

1. Accounting policies continued

1.15 Cash and cash equivalents and borrowings

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Borrowings, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method and are part of the Group's cash management approach and are repayable on demand.

1.16 Assets held for sale

Non-current assets, including investment property, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Investment property is measured at fair value less costs to sell. Other non-current assets are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised in the income statement for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet and are not depreciated or amortised.

1.17 Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.18 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at the consideration received less related transaction costs. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

1.19 Provisions

The Group recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

The Group makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme and Motor Insurance Bureau.

When the Group has an onerous contract, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

Restructuring provisions are made, including redundancy costs, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan and has communicated the plan to those affected.

1.20 Short-term employee benefits

Liabilities recognised in respect of staff bonuses and rewards are measured at the undiscounted amount of benefits expected to be paid in exchange for the related service.

1.21 Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to the Group's defined contribution pension scheme are recognised in the income statement when payable.

The Group's defined benefit pension scheme, as described in note 27, was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method, and discounted at a rate that reflects the current rate of return on a high-quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The past service costs, together with the net interest on the net pension liability or asset, are charged or credited to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement and presented in other comprehensive income under "Items that will not be reclassified subsequently to the income statement".

Insurance assets resulting from a bulk annuity insurance policy 'buy-in' transaction result in the insurance asset exactly matching the pension liability. A 'buy-in' is not a settlement and the liability is not derecognised as the Group retains ultimate responsibility for funding the plan.

1.22 Taxation

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted, or substantively enacted, by the balance sheet date and is allocated over profits before taxation or amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Deferred taxation is accounted for in full using the balance sheet liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is probable that they will not be recovered.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

1.23 Share-based payment

The Group operates a number of share-based compensation plans under which it awards Ordinary Shares and share options to its employees. Such awards are generally subject to vesting conditions that can alter the amount of cash or shares to which an employee is entitled.

Vesting conditions include service conditions (requiring the employee to complete a specified period of service) and performance conditions (requiring the Group to meet specified performance targets).

The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility.

The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted and takes into account non-vesting conditions and market performance conditions (conditions related to the market price of the Company's Ordinary Shares).

The cost is expensed on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied) with a corresponding increase in equity in an equity-settled award. The cost is adjusted for vesting conditions (other than market performance conditions) so as to reflect the number of shares or share options that actually vest.

The cancellation of an award through failure to meet non-vesting conditions triggers an immediate expense for any unrecognised element of the cost of an award.

1.24 Capital instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, or as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

The Tier 1 notes are classified as equity as they have a perpetual maturity and the Group has full discretion over interest payments, including ability to defer or cancel interest payments indefinitely.

The consideration for any Ordinary Share of the Company purchased by the Group for the benefit of the employee trusts is deducted from equity.

1.25 Dividends

Interim dividends on Ordinary Shares are recognised in equity in the period in which they are paid. Final dividends on Ordinary Shares are recognised when they have been approved at the AGM.

1.26 Accounting developments

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments'

Changes in accounting policies and disclosures

(a) Estimated impact of the transition to IFRS 17 and IFRS 9

The Group will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. IFRS 17 is expected to bring a significant change to how the Group accounts for its insurance contracts issued and reinsurance contracts held and is therefore expected to have a material financial impact on the Group's consolidated financial statements in the period of initial application. IFRS 9 has a limited impact. The table below summarises the expected financial impact:

Estimated reduction in the Group's total equity

	1 January 2022 £m
Adjustments due to the adoption of IFRS 17: Non-life contracts	(73.9)
Adjustments due to the adoption of IFRS 9: Impairment of financial assets	(4.1)
Current tax impacts	–
Deferred tax impacts	17.8
Estimated impact of adoption of IFRS 17 and 9 after tax on total equity	**(60.2)**

The following notes provide a summary of the main accounting policies that the Group will adopt on transition to IFRS 17 and IFRS 9, as well as the significant estimates and judgements that will be made.

(b) IFRS 17 – Significant accounting policies

The Group is adopting the full retrospective approach on transition to IFRS 17 using the Premium Allocation Approach ("**PAA**").

Insurance and reinsurance contracts classification

Contract classification, as disclosed in policy note 1.3, remains unchanged on adoption of IFRS 17.

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

Insurance contracts accounting treatment

(i) Separating components from insurance and reinsurance contracts

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

(ii) Level of aggregation

IFRS 17 requires that a level of aggregation is determined for applying its requirements. The level of aggregation is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. IFRS 17 also requires that no group, for aggregation purposes, may contain contracts issued more than one year apart.

1. Accounting policies continued

1.26 Accounting developments continued

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments' continued

Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any); and
- a group of the remaining contracts in the portfolio.

(iii) Recognition

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

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

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

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

(iv) Contract boundary

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

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

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

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

- the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- for contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced by applying the General Measurement Model. For insurance contracts, this is expected to equate to less than 2% of gross written premium under IFRS 4 on transition; for reinsurance contracts, this is primarily in respect of the Group's Motor excess of loss treaty and is also expected to apply to the Group's quota share reinsurance agreement.

Insurance contracts – initial measurement

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

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

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

Reinsurance contracts held – initial measurement

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

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

Insurance contracts – subsequent measurement

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

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

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

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Insurance acquisition cash flows for insurance contracts issued

All insurance acquisition cash flows are expensed as incurred. This includes for a small number of contracts where the coverage period exceeds a period of twelve months (see 1.26.1 (b) (v)) and there are no material amounts of acquisition costs relating to these contracts. This differs to the Group's previous policy of deferring acquisition costs over a 12-month period.

Insurance contracts – modification and derecognition

The Group derecognises insurance contracts when:

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

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

(vi) Presentation

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

The Group disaggregates the total amount recognised in the income statement and insurance service result, comprising insurance revenue and insurance service expense and insurance finance income or expenses.

The Group does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

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

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. The liability for remaining coverage is not discounted.

Insurance finance income and expense

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

- the effect of the time value of money and changes in the time value of money; and
- the effect of financial risk and changes in financial risk.

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

Net income or expense from reinsurance contracts held

The Group presents separately on the face of the income statement the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and treats amounts not dependent on the underlying claims, such as ceding commissions, as a reduction in the premiums paid to the reinsurer. Additionally, the allocation of premiums paid will not be presented as a reduction on the face of the income statement.

(c) IFRS 17 – accounting judgements and sources of estimation uncertainty

It is expected that the Group will have additional accounting judgements and sources of estimation uncertainty on adoption of IFRS 17 as follows:

Level of aggregation

<u>Accounting judgement</u>

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

Premium Allocation Approach

<u>Accounting judgement</u>

For a small number of insurance contracts, and reinsurance contracts, which have a coverage period that is greater than 12 months (as described in note 1.26.1 (b) (v) above), the Group elects to apply the PAA if at the inception of the contract, the Group reasonably expects that it will provide a liability for remaining coverage that would not differ materially from the General Measurement Model. The Group exercises judgement in determining whether the PAA eligibility criteria are met at initial recognition.

Onerous contracts

<u>Source of estimation uncertainty</u>

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

1. Accounting policies continued

1.26 Accounting developments continued

1.26.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments' continued

Estimates of future cash flows

Source of estimation uncertainty

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices, however these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations.

Discount rates

Accounting judgement

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

The Group will generally determine risk-free discount rates using the Solvency II risk-free rates sourced from the Bank of England. For cash flows that are not in respect of PPOs, a small illiquidity premium will be added to the risk-free rate, reflecting the short settlement tail. For PPOs, to reflect the different liquidity characteristics of the cash flows, the risk-free yield curves will be adjusted by a generally higher illiquidity premium. The illiquidity premium will be determined by using a fundamental spread approach by deducting the risk-free rate and credit risk premium from corresponding corporate bond reference portfolios. For non-PPOs, the reference portfolio is A-rated bonds with terms of 1 to 3 years and for PPOs, the reference portfolio is BBB-rated bonds with a remaining term of 15 or more years. Judgement is applied when determining the illiquidity premium with respect to allowances for past and future trends, considering changes in the economic environment. Under IFRS 4, the Group does not currently discount future cash flows, except in respect of PPOs, which are discounted at a rate that is consistent with the expected return backing these long-term liabilities.

Risk adjustment

Source of estimation uncertainty

A risk adjustment for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It will be determined at Group level and allocated to groups of contracts based on the size of their reserves. The risk adjustment for non-financial risk will be determined using a confidence level technique.

The Group will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level will be at the 75th percentile for liabilities for incurred claims. The risk adjustment is derived using the reserve risk distribution calculated in the internal economic capital model and consequently, is subject to model and parameter uncertainty.

(d) IFRS 9 – Significant accounting policies

IFRS 9 'Financial Instruments' addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group will apply the new rules retrospectively from 1 January 2023 and comparatives for 2022 will be restated. The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2023.

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

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

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

The Group's current fair value designated hedge relationships will no longer be required. The Group will continue to have a small number of immaterial designated cash flow hedges; the Group will apply the IFRS 9 hedging requirements to these cash flow hedges.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("**ECL**") rather than incurred credit losses as is the case under IAS 39. The Group has established a default probability model for its debt securities held at amortised cost and loans and receivables. As the majority of the Group's debt securities will be held at FVTPL, for which no ECL calculations are required, ECL provisions are expected to be in the region of £2.9 million on 1 January 2023.

ECLs for other receivables will be based on a probability matrix and are expected to be similar to the level of existing bad debt provisions.

(e) IFRS 9 – accounting judgements and sources of estimation uncertainty

The critical estimates and judgement disclosure for impairment of financial assets will be updated for ECL calculations. The key areas of estimation relate to:

- determining when there has been a significant increase in credit risk since initial recognition;
- inputs and assumptions used in preparing a range of unbiased and probability-weighted scenarios; and
- weightings to be applied to these different scenarios.

As the majority of financial instruments of the Group are held at FVTPL, with fair value movements included in the income statement immediately, the ECL provision is not expected to be material.

1.26.2 Other accounting developments

New IFRS standards and amendments that are issued, but not yet effective for the 31 December 2022 reporting period and have not been early adopted by the Group are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The Group continues to defer the adoption of IFRS 9 (including 'Amendments to IFRS 9: Prepayment Features with Negative Compensation') until it adopts IFRS 17 from 1 January 2023 as allowed by 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' and 'Amendments to IFRS 4: Deferral of IFRS 9' as its activities continue to be predominately connected with insurance, with insurance liabilities making up the largest proportion of its total liabilities.

Further, Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' requires certain interim disclosures in relation to the fair value movements of financial assets as outlined below.

The fair value at the end of the reporting period for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount are disclosed in note 43. The amount of change in the fair value during the period for these financial assets was:

- AFS debt securities £285.7 million decrease (2021: £94.5 million decrease);
- HTM debt securities £10.7 million decrease (2021: £1.7 million decrease);
- infrastructure debt £7.7 million decrease (2021: £2.1 million decrease);
- commercial real estate loans £1.0 million increase (2021: £0.5 million decrease); and
- other loans £1.0 million decrease (2021: £nil).

Derivative assets do not have contractual terms that give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. The fair value of these financial assets is disclosed in note 43 and the amount of change in the fair value during the period was an increase of £30.9 million (2021: £26.9 million increase).

In note 3.3.3 the Group has disclosed the carrying amount of financial assets at the end of the reporting period by credit risk rating grade, as defined in IFRS 7 'Financial Instruments: Disclosures'. The fair value of financial assets that meet the 'solely payments of principal and interest' criteria, and at the end of the reporting period do not have a low credit risk, was £300.9 million (2021: £366.0 million). The carrying value of these financial assets at 31 December 2022 was £304.8 million (2021: £368.1 million).

IFRS 9 information that relates to entities within the Group that is not provided in the Group's consolidated financial statements can be obtained from their individual financial statements, which are filed at Companies House.

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

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

In July 2020 a further amendment was made: 'Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendments to IAS 1)' to defer the effective date of the January 2020 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' to annual reporting periods beginning on or after 1 January 2023. Exposure Draft ED/2021/9 'Non-current Liabilities with Covenants (Proposed amendments to IAS 1)' published in November 2021 proposes further deferral until not earlier than 1 January 2024.

These amendments are yet to be adopted by the UK.

The following amendments are effective from I January 2023 and have been adopted by the UK.

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

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

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

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

The following amendments are effective from 1 January 2024 but have not yet been adopted by the UK.

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

2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Group's principal accounting policies are set out on pages 184 to 195. Company law and IFRSs require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable.

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

2.1 Impairment provisions – financial assets

Accounting judgement

The Group's financial assets are classified as AFS or HTM debt securities, FVTPL equity or loans and receivables. Excluding those assets held at FVTPL, the Group makes a judgement that financial assets are impaired when there is objective evidence that an event or events have occurred since initial recognition that have adversely affected the amount or timing of future cash flows from the asset. The determination of which events could have adversely affected the amount or timing of future cash flows from the asset requires judgement. In making this judgement, the Group evaluates, among other factors: the normal price volatility of the financial asset; the financial health of the investee; industry and sector performance; changes in technology or operational and financing cash flow; and whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Impairment may be appropriate when there is evidence of deterioration in these factors.

On a quarterly basis, the Group reviews whether there is any objective evidence that a financial asset is impaired based on the following criteria:

- actual, or imminent, default on coupon interest or nominal;
- adverse movements in the credit rating for the investee/borrower;
- price performance of a particular AFS debt security, or group of AFS debt securities, demonstrating an adverse trend compared to the market as a whole; and
- whether an event has occurred that could be reliably estimated and which had an impact on the financial asset or its future cash flows.

The majority of the Group's financial assets are classified as AFS debt securities (31 December 2022: £3,147.5 million; 31 December 2021: £4,084.6 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the income statement. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio. Had all the declines in AFS debt securities asset values met the criteria above at 31 December 2022, the Group would have suffered a loss of £262.9 million (2021: £24.8 million), being the transfer of the total AFS reserve for unrealised losses to the income statement. However, these movements represent mark-to-market movements and, as there was no objective evidence of any loss events that could affect future cash flows, no impairments have been recorded.

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

The Group has a portfolio of investments classified as loans and receivables, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2022: £439.2 million; 31 December 2021: £451.6 million). There was an impairment of £1.8 million within the loans and receivables portfolio in the year ended 31 December 2022 (2021: £2.1 million).

2.2 Fair value of investment properties

Sources of estimation uncertainty

The Group holds a portfolio of investment properties, with a fair value at 31 December 2022 of £278.5 million (2021: £317.0 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy (see note 43).

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Group's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations (see note 20). There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

2.3 General insurance: outstanding claims provisions and related reinsurance recoveries

Accounting judgement

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

Source of estimation uncertainty

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2022 amounted to £2,608.2 million (2021: £2,548.4 million).

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

The corresponding reinsurance recoveries are calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.6. The reinsurance bad debt provision is mainly held against expected recoveries on future PPO payments.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, minus 0.75% in Scotland, and minus 1.5% in Northern Ireland.

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. Sensitivities for the impact of a potential change in the Ogden discount rate are shown in note 3.3.1.

The Group settles some large bodily injury claims as PPOs rather than lump sum payments. The Group has estimated the likelihood of large bodily injury claims settling as PPOs. Anticipated PPOs consist of both existing large loss case reserves including allowances for development and claims yet to be reported to the Group. Reinsurance is applied at claim level and the net cash flows are discounted for the time value of money. The discount rate is consistent with the expected return on the assets backing these long-term liabilities. In 2022, the Group reviewed the estimates used to discount PPOs as described in note 35. Given the significant changes both in the current economic environment and the longer term outlook, the Group changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns. This resulted overall in the application of a real discount rate of 0.9% (2021: 0.0%), the combination of cash flow weighted inflation and discounting of 4.2% and 5.1% respectively, the latter driven by an expected increase in the long-term yield of the assets backing PPO liabilities.

The table in note 35 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2022 and 31 December 2021 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3.3.1.

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, the CPI was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific scenarios for excess inflation have been considered in the reserving process. The percentages applied range from 2% to 5% and for future periods of up to 5 years, depending on the class of business and claim type and allowing for the level of inflation included in the best estimate. The Group has observed a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty.

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

Changes in claims frequency present greater uncertainty for the unearned part of the business, whereas uncertainty over the level of claims severity has a greater impact on both the earned and unearned claims reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims as well as input costs and replacement costs for damage claims, in particular increased second-hand car costs in Motor. The sensitivity analysis in note 3.3.1 looks at a 200 basis point change in the claims inflation assumed in the actuarial best estimate over the next two years and therefore continues to remain relevant and is within the Group's booked reserve margin. The risk of material adjustments to the Group's estimates which could affect the carrying value in 2023 is highest in relation to long tail classes where inflation has been less evident to date. The Group therefore reserves for the risk of excess inflation on these classes within the management margin.

3. Risk management

3.1 Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework sets out, at a high level, the Group's approach and processes for managing risks. Further information can be found in the Risk management section of the Strategic report on page 86.

3.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Group has sufficient funds to meet its liabilities as they fall due. The Group carries out detailed modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its SCR, using its partial internal model approved by the PRA in 2016. The SCR quantifies the insurance, market, credit, operational and liquidity risks that the regulated entities are undertaking.

The Board is closely involved in the SCR process and reviews, challenges and approves its assumptions and results.

3.3 Principal risks from insurance activities and use of financial instruments

The Risk management section of the Strategic report also sets out all the risks assessed by the Group as principal risks. Detailed below is the Group's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk, credit risk, operational risk and liquidity risk.

The global political situation, including Russia’s invasion of Ukraine materially affecting European energy supply, has resulted in high inflation rates, and a cost of living crisis. This, compounded with recent UK political instability, is likely to result in a longer than expected period of low or negative growth that will significantly impact businesses and customers across the UK well into 2024.

Inflationary pressures exacerbate the exceedingly difficult trade-offs the Bank of England faces between supporting growth and controlling price pressures and are precipitating a cost of living crisis. The rise of inflation has prompted Central Banks to undergo one of the fastest programmes of interest rate rises in recent history, whilst also generating a wave of social unrest and strikes, as workers seek better pay deals to protect living standards. The Group's Investment and Treasury function has analysed the potential impact of a recession on holdings in the investment portfolio, finding that holdings are relatively safely positioned, helped by solid diversification and good ongoing investment management oversight.

Following the end of the transition period on 31 December 2020 and the trade and co-operation agreement between the UK and the EU, there remains uncertainty as to the longer term effect of Brexit on the Group, for example the risk of shortages in trades and care workers increasing claims costs.

The implications of these risks are referred to in the Risk management section of the Strategic report on page 86.

Claims inflation

The Group's reserves and claims from underwritten policies are exposed to the risk of changes in claims development patterns arising from inflation. Uncertainty in claims reserves and underwriting risk has significantly increased due to the increase in future inflation and its outlook, and the additional uncertainty when forecasting its impact on claims reserves.

The insurance sectors that the Group operates in are particularly affected by inflation and its impact on the costs of car parts, used car prices, services and care worker labour, and construction materials. This, in addition to the supply chain dislocation has led to materially increased claim severity on motor damage and home and commercial property claims, with a longer term risk of care worker inflation increasing motor large bodily injury claims. Details of the Group's sensitivity to claims inflation are included in note 3.3.1.

3.3.1 Insurance risk

The Group is exposed to insurance risk as a primary consequence of its business. Key insurance risks focus on the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.

The Group is mainly exposed to the following insurance risks:

Reserve risk

Reserve risk relates to both premium and claims. This is the risk of understatement or overstatement of reserves arising from:

- the uncertain nature of claims, in particular large bodily injury claims;
- unexpected future impact of socioeconomic trends or regulatory changes, for example changes to the Ogden discount rate;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market including a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost; for example, lost investment return or insufficient resource to pursue strategic projects and develop the business.

Reserve risk is managed through a range of processes and controls:

- regular reviews of the claims and premiums, along with an assessment of the requirement for a liability adequacy provision for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- use of reinsurance programmes, through Motor, Liability, Property catastrophe, Property risk and Travel, which are renewable annually;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 2.3.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate.

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

	Increase/(decrease) in profit before tax[1,2]	
	2022	2021
At 31 December	**£m**	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**31.0**	43.0
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(42.8)**	(58.9)
Ogden discount rate[4]		
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2021: 0.75% compared to minus 0.25%)	**46.7**	42.5
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2021: minus 1.25% compared to minus 0.25%)	**(64.2)**	(59.4)
Claims inflation[5]		
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**79.4**	74.3
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(80.5)**	(75.5)

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.9% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.
5. We have updated this sensitivity across 2021 and 2022, to a 200 basis point increase/decrease in inflation in acknowledgment of the current uncertain economic environment.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2022. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

There is the risk that claims are reserved or paid inappropriately, including the timing of such activity. However, there are claims management controls in place to mitigate this risk, as outlined below:

- claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner;
- each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside their authority, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements, all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures;
- loss adjusters are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and the Claims Function;
- specialist bodily injury claims teams are responsible for handling these types of losses, with the nature of handling dependent on the level and type of claim. Claims exceeding a certain threshold are referred to the technical and large loss teams who also deal with all other claim types above defined limits or within specific criteria; and
- a process is in place to deal with major weather and other catastrophic events, known as the 'Surge Demand Plan'. A surge is the collective name given to an incident which significantly increases the volume of claims reported to the Group's Claims Function. The plan covers surge demand triggers, stages of incident, operational impact, communication and management information monitoring of the plan.

3. Risk management continued

3.3.1 Insurance risk continued

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

The Solvency II definition of underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

The key risks relating to climate change today are UK floods and major UK windstorms. The Group recognises that climate change may impact its business over the longer term. In particular, there is a risk that climate change affects the frequency and severity of extreme weather events (physical risk), which will change the Group's view of underwriting risk, reinsurance and pricing. The Group will continue to develop its risk management systems and monitoring tools over 2023, and accelerate the pre-emptive management actions of repricing and reinsurance as well as the strategic management actions relating to flood resilience and underwriting footprint following the second round of the Climate Biennial Exploratory Scenario ("**CBES**") analysis in early 2022. Low-frequency, high-severity weather losses are mitigated to a significant degree by the catastrophe reinsurance programme, the ceding of home high flood risks to Flood Re, and the commercial underwriting strategy which reduces high flood risk exposure. The Group expects these specific risks to materialise in the medium to longer term (see page 74 for definition). Furthermore, there is a risk that the Group's insurance products will not meet its customers' needs as a result of changes in market dynamics and customer behaviour in relation to climate change, for example a rapid shift towards electric vehicle usage. The Group anticipates that its continued strategic and operational response to the transition to a lower-carbon economy will support mitigation of these risks and the associated impacts in the long term.

When underwriting policies, the Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group's business is almost wholly written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/storm surge loss. The programme renews annually on 1 July and the existing cover for the period 1 July 2022 to 30 June 2023 has a retention of £150 million per weather event and an upper limit of £1,350 million;
- product concentration risk – the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers; and
- sector concentration risk – the concentration of the Group to any given industry sector is monitored and analysed in respect of commercial customers to ensure this risk is mitigated.

It is important to note that none of these risk categories are independent of the others and that giving due consideration to the relationship between these risks is an important aspect of the effective management of insurance risk.

Distribution risk

This is the risk of a material reduction in profit compared to plan due to the Group not writing its planned policy volumes in each segment.

Pricing risk

This is the risk of economic loss arising from business being incorrectly priced or underwritten.

Reinsurance risk

This is the risk of inappropriate selection and/or placement of reinsurance arrangements, with either individual or multiple reinsurers, which renders the transfer of insurance risk to the reinsurer(s) inappropriate and/or ineffective.

Other risks include:

- reinsurance concentration risk – the concentration of credit exposure to any given counterparty;
- reinsurance capacity being reduced and/or withdrawn;
- underwriting risk appetite and reinsurance contract terms not being aligned;
- reinsurance contract terms being inappropriate or ineffective resulting in classes or types of business not being appropriately reinsured;
- non-adherence to the reinsurance policy terms and conditions, in terms of both policy management and claims not being handled within the reinsurance contract terms and conditions, or paid on an ex-gratia basis, resulting in reinsurance recoveries not being made in full;
- inappropriate or inaccurate management information and/or modelling being used to determine the value for money and purchasing of reinsurance (including aggregate modelling); and
- changes in the external legal, regulatory, social or economic environment (including changes resulting from climate change) altering the definition and application of reinsurance policy wordings or the effectiveness or value for money of reinsurance.

The Group uses reinsurance to:

- protect the underwriting result against low-frequency, high-severity losses through the transfer of catastrophe claims volatility to reinsurers;
- protect the underwriting result against unforeseen volumes of, or adverse trends in, large individual claims in order to reduce volatility and to improve stability of earnings;
- reduce the Group's capital requirements; and/or
- transfer risk that is not within the Group's current risk appetite.

3.3.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

The Group has policies and limits approved by the Investment Committee for managing the market risk exposure. These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits the Group is willing to accept having considered strategy, risk appetite and capital resources.

The Group monitors its market risk exposure on a daily basis and, in addition, has established an aggregate exposure limit consistent with its risk objective to maintain capital adequacy. Interdependencies across risk types have also been considered within the aggregate exposure limit. The allocation of the Group's investments across asset classes has been approved by the Investment Committee. The strategic asset allocation within the investment portfolio is reviewed by the Investment Committee, which makes recommendations to the Board for its investment strategy approval. The Investment Committee determines policy and controls, covering such areas as risk, liquidity and performance. The Investment Committee meets at least three times a year to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it. Oversight of the implementation of decisions taken by the Investment Committee is via the first and second lines of defence.

During this phase of economic uncertainty maturities from the in-house short and intermediate sterling credit portfolios had not been reinvested up until October, significantly increasing cash reserves and liquidity. However, to improve investment returns with a low risk to solvency, cash was reinvested into £150 million of 3 month Treasury Bills, and £41 million of government related sterling credit maturities during Q4 2022.

The investment management objectives are to:

- maintain the safety of the portfolio's principal both in economic terms and from a capital, accounting and reporting perspective;
- maintain sufficient liquidity to provide cash requirements for operations, including in the event of a catastrophe; and
- maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines and capital allocation.

The Investment Committee has agreed long-term targets for the investment portfolio in relation to supporting the Group's objectives on climate change. These are: ensuring the Group's entire investment portfolio is net zero emissions by 2050 in line with the aims of the Race to Zero campaign; and an interim target of a 50% reduction in weighted average greenhouse gas emissions intensity by 2030 within the Group's corporate bonds portfolio, the largest part of its investment portfolio, compared to a 2020 baseline. See page 68 for more information on investment portfolio targets, exclusions and preferences and page 66 for the Group's approved Science-Based Targets.

The Group has a property portfolio and an infrastructure debt portfolio to generate a real return which, from an asset and liability matching perspective, is used to offset the liability arising from longer duration PPOs.

When setting the strategic asset allocation, the Group is subject to concentration risk in a variety of forms including:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Concentration risk on investments arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Group may suffer significant losses in its investment portfolio as a result of over-exposure to particular sectors engaged in similar activities or having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK).

At 31 December 2022	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	116.0	–	–	–	**116.0**
Austria	4.3	–	–	–	**4.3**
Belgium	31.6	–	–	–	**31.6**
Canada	59.8	–	–	–	**59.8**
Cayman Islands	3.7	–	–	–	**3.7**
China	0.6	–	–	–	**0.6**
Czech Republic	0.7	–	–	–	**0.7**
Denmark	17.9	–	–	–	**17.9**
Finland	7.7	–	–	–	**7.7**
France	237.0	5.9	–	–	**242.9**
Germany	175.7	–	–	–	**175.7**
Hong Kong	9.3	–	–	–	**9.3**
Ireland	1.4	–	–	–	**1.4**
Italy	16.1	–	–	–	**16.1**
Japan	18.8	–	–	–	**18.8**
Luxembourg	2.6	–	–	–	**2.6**
Mexico	7.0	–	–	–	**7.0**
Netherlands	100.0	–	–	–	**100.0**
New Zealand	10.0	–	–	–	**10.0**
Norway	17.7	–	–	–	**17.7**
Portugal	6.7	–	–	–	**6.7**
South Africa	6.0	–	–	–	**6.0**
Spain	56.5	–	–	–	**56.5**
Sweden	23.9	–	–	–	**23.9**
Switzerland	50.0	–	–	–	**50.0**
United Arab Emirates	3.5	–	–	–	**3.5**
United Kingdom	822.0	–	480.3	–	**1,302.3**
USA	895.5	–	31.0	–	**926.5**
Zambia	1.3	–	–	–	**1.3**
Supranational	–	–	–	25.2	**25.2**
Total	**2,703.3**	**5.9**	**511.3**	**25.2**	**3,245.7**

The table below analyses the distribution of debt securities by geographical area (commercial real estate loans and infrastructure debt are all within the UK).

At 31 December 2021	Corporate £m	Local government £m	Sovereign £m	Supranational £m	Debt securities total £m
Australia	215.0	–	–	–	215.0
Austria	17.7	–	–	–	17.7
Belgium	31.6	–	–	–	31.6
Canada	99.1	–	–	–	99.1
Cayman Islands	4.0	–	–	–	4.0
China	1.0	–	–	–	1.0
Czech Republic	1.0	–	–	–	1.0
Denmark	15.6	–	–	–	15.6
Finland	29.4	12.1	–	–	41.5
France	301.6	5.9	–	–	307.5
Germany	243.3	–	–	–	243.3
Ireland	1.4	–	–	–	1.4
Italy	21.0	–	–	–	21.0
Japan	48.6	–	–	–	48.6
Mexico	13.1	–	–	–	13.1
Netherlands	125.1	–	–	–	125.1
New Zealand	11.0	–	–	–	11.0
Norway	17.9	10.1	–	–	28.0
Portugal	4.9	–	–	–	4.9
South Africa	10.6	–	–	–	10.6
South Korea	3.0	–	–	–	3.0
Spain	74.3	–	–	–	74.3
Sweden	65.8	–	–	–	65.8
Switzerland	57.3	–	–	–	57.3
United Arab Emirates	3.5	–	–	–	3.5
United Kingdom	1,134.0	–	29.7	–	1,163.7
USA	1,546.1	–	5.9	–	1,552.0
Zambia	1.2	–	–	–	1.2
Supranational	–	–	–	14.0	14.0
Total	4,098.1	28.1	35.6	14.0	4,175.8

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of debt securities by industry sector classifications.

	2022		2021	
At 31 December	**£m**	**%**	£m	%
Basic materials	**48.8**	**1%**	82.6	2%
Communications	**131.1**	**4%**	203.4	5%
Consumer, cyclical	**274.7**	**8%**	410.3	10%
Consumer, non-cyclical	**223.0**	**7%**	361.4	9%
Diversified	**14.3**	**0%**	19.2	0%
Energy	**81.2**	**3%**	152.8	4%
Financial	**1,452.9**	**45%**	2,050.2	49%
Industrial	**158.5**	**5%**	250.5	6%
Sovereign, supranational and local government	**542.4**	**17%**	77.7	2%
Technology	**50.2**	**2%**	121.5	3%
Transport	**13.4**	**0%**	13.4	0%
Utilities	**255.2**	**8%**	432.8	10%
Total	**3,245.7**	**100%**	4,175.8	100%

The table below analyses the distribution of infrastructure debt by industry sector classifications.

	2022		2021	
At 31 December	**£m**	**%**	£m	%
Social, of which:				
Education	**105.8**	**44%**	110.3	44%
Health	**64.1**	**27%**	67.2	26%
Other	**47.8**	**20%**	49.0	20%
Transport	**20.5**	**9%**	24.3	10%
Total	**238.2**	**100%**	250.8	100%

The Group uses its partial internal model to determine its capital requirements and market risk limits and monitors its market risk exposure based on a 99.5% value-at-risk measure. The Group also applies market risk stress and scenario testing for the economic impact of specific severe market conditions. The results of this analysis are used to enhance the understanding of market risk. The market risk minimum standard explicitly prohibits the use of derivatives for speculative or gearing purposes. However, the Group is able to and does use derivatives for hedging its currency risk and interest rate risk exposures.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher-risk assets. The Group is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

The Group's exposure to credit spread widening was partly de-risked in August via the sale of approximately £670 million of longer-dated US dollar investment grade credit.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or interest rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated Tier 2 notes with fixed coupon rates with a nominal value of £260 million that were issued on 5 June 2020 and perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Tier 2 notes issued on 27 April 2012 were redeemed in full on 27 April 2022. On the same day, the interest rate swap held to hedge the exposure to interest rates by exchanging the fixed rate of interest on these notes for a floating rate expired.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro debt securities, the Group hedges its exposure to US dollar and Euro interest rate risk using swaps, excluding £286.8 million of US dollar short-duration, high-yield bonds (2021: £348.6 million), £134.4 million of US dollar subordinated financial debt and £93.6 million of Euro subordinated financial debt (2021: £123.9 million and £96.2 million, respectively).

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The first two were subject to interest rate benchmark reform during 2021 (historically both LIBOR). The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

Not all the infrastructure loans as at 31 December 2022 have transitioned away from GBP LIBOR over to GBP SONIA. Where legal documentation has yet to be completed, in the immediate future reference of rates will be linked to synthetic GBP LIBOR. The table below discloses in more detail for the transition from LIBOR to GBP SONIA for infrastructure loans.

Non-derivative floating rate financial instruments prior to transition	Maturing in	Number of instruments	Nominal exposure (£m)	Transition progress
Infrastructure debt linked to LIBOR	2024 - 2040	28	238.2	– 23 loans have completed transition to SONIA; – five loans (totalling £67.9 million) are yet to transition to SONIA, of which: (i) four loans are expected to transition from 6 month GBP synthetic LIBOR to SONIA on the next roll date at the end of March 2023; and (ii) one loan (totalling £7.6 million) will be repaid in full early in Q2 2023.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2022, the value of these property investments was £278.5 million (2021: £317.0 million). The property investments are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates. Exposure to currency risk is generated by the Group's investments in US dollar and Euro denominated debt bonds.

The Group maintains exposure to US dollar securities through £751.0 million (2021: £1,376.5 million) of investments in US dollar bonds and Euro securities through £165.4 million (2021: £197.7 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities. Currency risk is not material at Group level.

Use of derivatives

The Group uses derivatives to hedge against interest rate and currency risk.

The tables below analyse the maturity of the Group's derivative assets and liabilities.

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative assets					
At fair value through the income statement					
Foreign exchange contracts (forwards)	**1,014.4**	24.2	—	—	**24.2**
Designated as hedging instruments					
Foreign exchange contracts (forwards)	**3.4**	0.1	—	—	**0.1**
Interest rate swaps	**240.4**	6.0	0.5	0.5	**7.0**
Total	**1,258.2**	**30.3**	**0.5**	**0.5**	**31.3**

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 – 5 years	Over 5 years	**Total**
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative liabilities					
At fair value through the income statement					
Foreign exchange contracts (forwards)	**1,190.4**	28.4	—	—	**28.4**
Designated as hedging instruments					
Interest rate swaps	**107.6**	—	0.2	1.0	**1.2**
Total	**1,298.0**	**28.4**	**0.2**	**1.0**	**29.6**

3. Risk management continued

3.3.2 Market risk continued

Use of derivatives continued

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative assets					
At fair value through the income statement					
Foreign exchange contracts (forwards)	1,695.4	27.8	–	–	27.8
Interest rate swaps	250.0	2.4	–	–	2.4
Designated as hedging instruments					
Foreign exchange contracts (forwards)	10.0	–	–	–	–
Interest rate swaps	901.0	(0.9)	3.6	3.0	5.7
Total	2,856.4	29.3	3.6	3.0	35.9

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Derivative liabilities					
At fair value through the income statement					
Foreign exchange contracts (forwards)	1,318.9	19.1	–	–	19.1
Designated as hedging instruments					
Foreign exchange contracts (forwards)	4.1	0.1	0.1	–	0.2
Interest rate swaps	9.1	–	–	0.2	0.2
Total	1,332.1	19.2	0.1	0.2	19.5

Sensitivity analysis

The table below provides a sensitivity analysis of the potential impact on financial investments and derivatives of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Group.

	Increase/(decrease) in profit before tax[1]		Decrease in total equity[1] at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Spread				
Impact of a 100 basis points increase in spreads on financial investments[2,3]	**–**	–	**(82.3)**	(144.3)
Interest rate				
Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3,4]	**5.9**	11.8	**(70.6)**	(100.6)
Investment property				
Impact of a 15% decrease in property markets	**(41.8)**	(47.5)	**(41.8)**	(47.5)

Notes:

1. These sensitivities exclude the impact of taxation and have not considered the impact of the general market changes on the value of the Group's insurance liabilities. They reflect one-off impacts at 31 December and should not be interpreted as predictions.
2. The income statement impact on financial investments is limited to floating rate instruments and interest rate derivatives used to hedge a portion of the portfolio. The income statement is not impacted in relation to fixed rate instruments, in particular AFS debt securities, where the coupon return is not impacted by a change in prevailing market rates, as the accounting treatment for AFS debt securities means that only the coupon received is processed through the income statement, with fair value movements being recognised through equity.
3. The increase or decrease in equity does not reflect any fair value movement in infrastructure debt, commercial real estate loans and HTM debt securities that would not be recorded in the financial statements under IFRSs as they are classified as loans and receivables and HTM respectively, which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in spreads would have been £12.1 million (2021: £13.7 million) and a 100 basis points increase in interest rates would have been £3.7 million (2021: £4.8 million).
4. The sensitivities set out above reflect one-off impacts at 31 December, with the exception of the income statement interest rate sensitivity on financial investments and derivatives, which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.

The Group has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2022, the Group has pledged £19.2 million in cash (2021: £26.3 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2022, counterparties have pledged £7.1 million in cash and £nil in UK Gilts (2021: £5.4 million in cash and £2.2 million in UK Gilts) to the Group to cover in-the-money derivative positions.

The terms and conditions of collateral pledged for both assets and liabilities are market-standard. When securities are pledged they are required to be readily convertible to cash, and as such no policy has been established for the disposal of assets not readily convertible into cash.

3.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group is mainly exposed to counterparty default risk.

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings. This risk is monitored by three forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk; and the NIG Credit Committee is responsible for monitoring broker credit risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Group are identified, monitored and measured.

The main sources of counterparty default risk for the Group are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
- reinsurance recoveries – this arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
- commercial credit – this arises as brokers collect premiums on behalf of the Group; and
- consumer credit – exposure from offering monthly instalments on annual insurance contracts.

The Group cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against which a reinsurance bad debt provision is assessed. The financial security of the Group's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A– at the time cover is purchased. The Group's leading counterparty exposures are reviewed on a quarterly basis by the Reinsurance and Credit Manager. The Group aims to deal with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

The following tables analyse the carrying value of financial and insurance assets that bear counterparty default risk between those assets that have not been impaired by age in relation to due date, and those that have been impaired. The Group's maximum exposure to credit risk is represented by the carrying values of the financial assets and insurance assets listed below. The Group does not use credit derivatives or similar instruments to mitigate exposure.

	Neither past due nor impaired	Past due 1 – 90 days	Past due more than 90 days	**Carrying value in the balance sheet**
At 31 December 2022	**£m**	£m	£m	**£m**
Reinsurance assets[1]	**1,046.0**	—	0.1	**1,046.1**
Insurance and other receivables	**781.8**	9.6	0.2	**791.6**
Derivative assets	**31.3**	—	—	**31.3**
Debt securities	**3,245.7**	—	—	**3,245.7**
Infrastructure debt	**238.2**	—	—	**238.2**
Commercial real estate loans	**199.1**	—	—	**199.1**
Cash and cash equivalents[2]	**1,003.6**	—	—	**1,003.6**
Other loans	**1.9**	—	—	**1.9**
Total	**6,547.6**	**9.6**	**0.3**	**6,557.5**

3. Risk management continued

3.3.3 Credit risk continued

At 31 December 2021	Neither past due nor impaired £m	Past due 1 – 90 days £m	Past due more than 90 days £m	Carrying value in the balance sheet £m
Reinsurance assets[1]	1,125.4	—	6.7	1,132.1
Insurance and other receivables	762.4	0.3	0.1	762.8
Derivative assets	35.9	—	—	35.9
Debt securities	4,175.8	—	—	4,175.8
Infrastructure debt	250.8	—	—	250.8
Commercial real estate loans	200.8	—	—	200.8
Cash and cash equivalents[2]	955.7	—	—	955.7
Total	7,506.8	0.3	6.8	7,513.9

Notes:
1. Reinsurance assets previously included reinsurers' unearned premium reserve with comparative data for the year ended 31 December 2021 re-presented accordingly. This change was made due to reinsurers' unearned premium reserves being assessed as having no inherent credit risks.
2. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

Within the analysis of debt securities above are bank debt securities at 31 December 2022 of £961.2 million (2021: £1,366.2 million) that can be further analysed as: secured £11.2 million (2021: £15.5 million); unsecured £795.3 million (2021: £1,193.7 million); and subordinated £154.7 million (2021: £157.0 million).

The tables below analyse the credit quality of debt securities that are neither past due nor impaired.

At 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Corporate	67.7	158.1	1,268.5	920.1	287.2	1.7	**2,703.3**
Supranational	25.2	—	—	—	—	—	**25.2**
Local government	—	5.9	—	—	—	—	**5.9**
Sovereign	31.0	480.3	—	—	—	—	**511.3**
Total	**123.9**	**644.3**	**1,268.5**	**920.1**	**287.2**	**1.7**	**3,245.7**

At 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Total £m
Corporate	58.5	334.7	1,913.3	1,439.4	352.2	4,098.1
Supranational	14.0	—	—	—	—	14.0
Local government	10.1	18.0	—	—	—	28.1
Sovereign	5.9	29.7	—	—	—	35.6
Total	88.5	382.4	1,913.3	1,439.4	352.2	4,175.8

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after provision. The Group's approach to reinsurance counterparty default risk is detailed on page 207.

At 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	**Total £m**
Reinsurance assets[1]	—	533.2	511.5	1.4	—	(0.1)	**1,046.0**
Insurance and other receivables[2]	—	9.2	48.5	3.3	—	720.8	**781.8**
Derivative assets	—	7.9	23.4	—	—	—	**31.3**
Infrastructure debt	—	—	38.2	193.0	7.0	—	**238.2**
Commercial estate loans	15.7	64.1	88.2	24.1	7.0	—	**199.1**
Cash and cash equivalents[3]	878.8	7.8	116.1	0.9	—	—	**1,003.6**
Other loans	—	—	—	—	—	1.9	**1.9**
Total	**894.5**	**622.2**	**825.9**	**222.7**	**14.0**	**722.6**	**3,301.9**

At 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Reinsurance assets[1]	—	618.0	490.7	1.9	—	14.8	1,125.4
Insurance and other receivables[2]	—	37.6	27.3	13.0	—	684.5	762.4
Derivative assets	—	7.9	9.9	18.1	—	—	35.9
Infrastructure debt	—	—	67.9	175.9	7.0	—	250.8
Commercial estate loans	17.7	73.3	66.9	34.1	8.8	—	200.8
Cash and cash equivalents[3]	792.9	26.2	133.0	3.6	—	—	955.7
Total	810.6	763.0	795.7	246.6	15.8	699.3	3,331.0

Notes:
1. Reinsurance assets previously included reinsurers' unearned premium reserve. Comparative data for the year ended 31 December 2021 has been re-presented accordingly.
2. Includes receivables due from policyholders, agents, brokers and intermediaries which generally do not have a credit rating.
3. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

3.3.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events. Material sources of operational risk for the Group include:

Change risk

This is the risk of failing to manage the Group's business change portfolio resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

Technology and infrastructure risk

This is the risk that the IT infrastructure is insufficient to deliver the Group's strategy.

Supplier management and outsourcing risk

This is the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of third-party suppliers, outsourced service providers and intra-group relationships. This includes both domestic and offshore outsourcing activities.

Cyber risk

This is the risk of loss or corruption to Group or customer data, intellectual property or failure of business-critical systems resulting in reputational damage, regulatory censure, supervision, fines and/or loss of competitive advantage.

Partnership contractual obligations

This is the risk of contractual obligations not being delivered for business partners resulting in damaged reputation, the loss of contract at renewal, significant liability payments and/or the early termination of a partnership scheme.

The Group has in place agreed policies and standards to establish and monitor key controls relating to operational risk.

Risk concentrations and management

The Group is subject to concentration in its operational risks through, for example, its IT systems and change programmes; which include the risk of losses in a number of scenarios such as system outages and data security breaches. Technology remains at the heart of the Group operations and focus is on upgrading Group IT systems and capabilities, aimed at expanding the Group's digital offerings, capitalising on the Group's data, improving customer experience and overall increasing operational efficiency.

The Group proactively manages its operational risks to mitigate potential customer harm, regulatory or legal censure, financial and reputational impacts. The Group has in place operational processes and systems, including prevention and detection measures. These include processes which seek to ensure the Group can absorb and/or adapt to internal or external events that could impact customer operations and the wider business, as well as to learn from these situations to improve the Group's overall risk and control systems moving forward.

The Group's risk management framework is designed to enable it to capture risk information in a complete and consistent way, enabling proactive trend analysis, root cause analysis and read across to facilitate early warnings and a ‘learning’ risk environment.

3.3.5 Liquidity risk

This is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations as they fall due.

The measurement and management of the Group's liquidity risk is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite and is detailed in the liquidity risk minimum standard. As part of this process, the Investment and Treasury team is required to put in place a liquidity plan which must consider expected and stressed scenarios for cash inflows and outflows that is reviewed at least annually by the Investment Committee. Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

The following table analyses the carrying value of financial investments and cash and cash equivalents, by contractual maturity, which can fund the repayment of liabilities as they crystallise.

3. Risk management continued

3.3.5 Liquidity risk continued

At 31 December 2022	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**
Debt securities	798.6	979.1	807.4	531.7	128.9	**3,245.7**
Infrastructure debt	18.9	34.8	41.4	91.5	51.6	**238.2**
Commercial real estate loans	55.9	63.3	79.9	—	—	**199.1**
Cash and cash equivalents[1]	1,003.6	—	—	—	—	**1,003.6**
Other loans	—	—	1.9	—	—	**1.9**
Total	**1,877.0**	**1,077.2**	**930.6**	**623.2**	**180.5**	**4,688.5**

At 31 December 2021	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m
Debt securities	507.0	972.7	1,293.2	1,281.0	121.9	4,175.8
Infrastructure debt	14.6	34.4	34.2	101.7	65.9	250.8
Commercial real estate loans	87.0	54.0	59.8	—	—	200.8
Cash and cash equivalents[1]	955.7	—	—	—	—	955.7
Total	1,564.3	1,061.1	1,387.2	1,382.7	187.8	5,583.1

Note:

1. This represents money market funds with no notice period for withdrawal and cash at bank and in hand.

The following table analyses the undiscounted cash flows of insurance and financial liabilities by contractual repricing or maturity dates, whichever is earlier.

At 31 December 2022	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Subordinated liabilities	10.4	20.8	20.8	306.8	—	**358.8**	258.6
Insurance liabilities[1]	1,316.8	924.2	438.4	390.2	1,646.4	**4,716.0**	3,654.3
Borrowings	65.2	—	—	—	—	**65.2**	65.2
Lease liabilities	10.9	17.6	14.3	32.2	27.8	**102.8**	81.6
Provisions	63.7	0.5	0.1	—	—	**64.3**	64.3
Trade and other payables, including insurance payables	451.5	6.1	0.2	—	—	**457.8**	457.8
Total	**1,918.5**	**969.2**	**473.8**	**729.2**	**1,674.2**	**5,764.9**	**4,581.8**

At 31 December 2021	Less than 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Subordinated liabilities	272.0	20.8	20.8	52.0	265.2	630.8	513.6
Insurance liabilities[1]	1,182.2	995.1	480.1	385.8	1,549.1	4,592.3	3,680.5
Borrowings	59.2	—	—	—	—	59.2	59.2
Lease liabilities	11.2	17.9	14.6	31.7	32.8	108.2	84.2
Provisions	95.8	0.5	0.1	—	—	96.4	96.4
Trade and other payables, including insurance payables	450.6	6.4	0.3	—	—	457.3	457.3
Total	2,071.0	1,040.7	515.9	469.5	1,847.1	5,944.2	4,891.2

Note:

1. Insurance liabilities exclude unearned premium reserves as there are no liquidity risks inherent in them.

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

At 31 December 2022	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Derivative assets	31.7	—	(0.1)	—	—	**31.6**	31.3
Derivative liabilities	(29.6)	—	—	—	—	**(29.6)**	(29.6)
Total	**2.1**	**–**	**(0.1)**	**–**	**–**	**2.0**	**1.7**

At 31 December 2021	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Derivative assets	27.4	3.1	3.2	2.8	—	36.5	35.9
Derivative liabilities	(19.4)	(0.1)	—	—	—	(19.5)	(19.5)
Total	8.0	3.0	3.2	2.8	—	17.0	16.4

3.4 Capital management

At 31 December 2022, the Group's capital position was comprised shareholders' equity of £1,934.0 million (31 December 2021: £2,550.2 million) and Tier 1 notes of £346.5 million (31 December 2021: £346.5 million). In addition, the Group's balance sheet also included £258.6 million of subordinated loan capital (31 December 2021: £513.6 million) which is classified as Tier 2 for Solvency II purposes.

The Group manages capital in accordance with the Group's capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Group seeks to hold capital resources such that, in normal circumstances, the solvency capital ratio is around the middle of the target range of 140% to 180%.

The Group's regulatory capital position is assessed against the Solvency II framework. From 1 July 2016, the Group gained approval to assess its SCR using a partial internal model, including a full internal model for the U K Insurance Limited underwriting entity. The model is calibrated to a 99.5% confidence interval and considers business written to date and one year of future written business over a one-year time horizon, in line with Solvency II requirements.

During the year, the Group and its regulated entities complied with all external capital requirements.

3.5 Capital adequacy (unaudited)

Using the Group's partial internal model, there is a capital surplus of approximately £0.57 billion above an estimated SCR of £1.21 billion as at 31 December 2022 (31 December 2021: £1.03 billion and £1.35 billion respectively). The Group's capital requirements and solvency position are produced and presented to the Board on a regular basis.

4. Segmental analysis

The Chief Operating decision makers, being the Acting Chief Executive Officer and the Chief Financial Officer, regularly review the operating results at the segmental level as described below and disclosed in the tables in this note to assess performance and make decisions about allocation of resources.

Motor

This segment consists of personal motor insurance together with the associated legal protection cover. The Group sells motor insurance direct to customers through its own brands Direct Line, Churchill, Privilege and Darwin, and through partnership brands such as vehicle manufacturers and through price comparison websites ("**PCWs**").

Home

This segment consists of home insurance together with associated legal protection cover. The Group sells home insurance products through its brands Direct Line, Churchill and Privilege, and its partnership brands (Royal Bank of Scotland and NatWest), as well as through PCWs.

Rescue and other personal lines

This segment consists of rescue products which are sold direct through the Group's own brand, Green Flag, and other personal lines insurance, including travel, pet and creditor sold through its own brands Direct Line, Churchill and Privilege, and through partnership brands and through PCWs.

Commercial

This segment consists of commercial insurance for small and medium-sized enterprises sold through the Group's brands NIG, Direct Line for Business and Churchill. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business sells its products directly to customers, and Churchill sells its products directly to customers and through PCWs.

Run-off partnerships

The Group has exited, or is seeking to exit, three partnerships which will reduce its exposure to low margin packaged bank accounts so it can redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, where the Group has indicated that it will not be seeking to renew.

The Group has excluded the results of the run-off partnerships from its ongoing results and has restated all relevant comparatives across this review, results relating to ongoing operations will be clearly labelled. The segmental analysis has been amended to reflect the change. The operating loss relating to run-off partnerships in 2022 was £11.5 million (2021: £8.5 million).

No inter-segment transactions occurred in the year ended 31 December 2022 (2021: £nil). If any transaction were to occur, transfer prices between operating segments would be set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

For each operating segment, there is no individual policyholder or customer that represents 10% or more of the Group's total revenue.

The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2022.

	Motor	Home	Rescue and other personal lines[1]	Commercial	**Total Group - ongoing operations[1]**	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Gross written premium	1,432.7	518.1	269.7	749.3	**2,969.8**	124.4	**3,094.2**
Gross earned premium	1,489.9	543.7	275.1	700.7	**3,009.4**	122.8	**3,132.2**
Reinsurance premium	(77.3)	(26.4)	(2.3)	(59.0)	**(165.0)**	(0.7)	**(165.7)**
Net earned premium	1,412.6	517.3	272.8	641.7	**2,844.4**	122.1	**2,966.5**
Investment return	28.9	9.9	2.5	9.7	**51.0**	0.6	**51.6**
Instalment income	64.7	16.5	2.7	8.5	**92.4**	—	**92.4**
Other operating income	36.2	0.5	15.6	3.0	**55.3**	—	**55.3**
Total income	1,542.4	544.2	293.6	662.9	**3,043.1**	122.7	**3,165.8**
Insurance claims	(1,197.6)	(417.3)	(147.5)	(345.1)	**(2,107.5)**	(110.5)	**(2,218.0)**
Insurance claims (payable to)/ recoverable from reinsurers	(19.8)	2.6	0.3	0.2	**(16.7)**	0.1	**(16.6)**
Net insurance claims	(1,217.4)	(414.7)	(147.2)	(344.9)	**(2,124.2)**	(110.4)	**(2,234.6)**
Of which:							
Current-year attritional	1,283.8	315.2	148.0	368.7	**2,115.7**	132.8	**2,248.5**
Prior-year reserve releases	(66.4)	(19.6)	(0.8)	(54.0)	**(140.8)**	(22.4)	**(163.2)**
Major weather events	n/a	119.1	n/a	30.2	**149.3**	n/a	**149.3**
Commission expenses	(47.4)	(26.3)	(10.7)	(124.5)	**(208.9)**	(2.2)	**(211.1)**
Operating expenses before restructuring and one-off costs	(354.8)	(111.9)	(76.0)	(135.2)	**(677.9)**	(21.6)	**(699.5)**
Total expenses	(402.2)	(138.2)	(86.7)	(259.7)	**(886.8)**	(23.8)	**(910.6)**
Operating (loss)/profit	**(77.2)**	**(8.7)**	**59.7**	**58.3**	**32.1**	**(11.5)**	**20.6**
Restructuring and one-off costs[2]							**(45.3)**
Finance costs							**(20.4)**
Loss before tax							**(45.1)**
Underwriting (loss)/profit	**(207.0)**	**(35.6)**	**38.9**	**37.1**	**(166.6)**		**(178.7)**
Loss ratio	86.2%	80.2%	54.0%	53.7%	**74.7%**		**75.3%**
Of which:							
Current-year attritional	90.9%	60.9%	54.3%	57.5%	**74.4%**		**75.8%**
Prior-year reserve releases	(4.7%)	(3.8%)	(0.3%)	(8.4%)	**(5.0%)**		**(5.5%)**
Major weather events	n/a	23.1%	n/a	4.6%	**5.3%**		**5.0%**
Commission ratio	3.4%	5.1%	3.9%	19.4%	**7.3%**		**7.1%**
Expense ratio	25.1%	21.6%	27.9%	21.1%	**23.8%**		**23.6%**
Combined operating ratio	**114.7%**	**106.9%**	**85.8%**	**94.2%**	**105.8%**		**106.0%**
Current-year combined operating ratio	119.4%	110.7%	86.1%	102.6%	**110.8%**		**111.5%**

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2022[3].

	Motor	Home	Rescue and other personal lines[1]	Commercial	**Total Group - ongoing operations[1]**	Run-off partnerships[1]	**Total Group**
	£m	£m	£m	£m	**£m**	£m	**£m**
Goodwill	130.4	45.8	28.7	10.1	**215.0**	—	**215.0**
Assets held for sale	27.7	4.8	0.6	7.5	**40.6**	0.3	**40.9**
Other segment assets	5,517.4	931.8	150.7	1,434.1	**8,034.0**	64.7	**8,098.7**
Segment liabilities	(4,119.4)	(705.4)	(91.5)	(1,106.8)	**(6,023.1)**	(51.0)	**(6,074.1)**
Segment net assets	**1,556.1**	**277.0**	**88.5**	**344.9**	**2,266.5**	**14.0**	**2,280.5**

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. See glossary on page 253 for definitions.
3. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

4. Segmental analysis continued

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

	Motor £m	Home £m	Rescue and other personal lines[1] £m	Commercial £m	Total Group - ongoing operations[1] £m	Run-off partnerships[1] £m	Total Group £m
Gross written premium	1,560.8	577.8	281.1	653.0	3,072.7	98.9	3,171.6
Gross earned premium	1,597.8	579.8	274.8	617.9	3,070.3	97.7	3,168.0
Reinsurance premium	(124.5)	(26.4)	(2.5)	(56.7)	(210.1)	(0.5)	(210.6)
Net earned premium	1,473.3	553.4	272.3	561.2	2,860.2	97.2	2,957.4
Investment return	99.8	12.5	2.9	30.3	145.5	0.8	146.3
Instalment income	69.4	18.3	3.0	6.6	97.3	—	97.3
Other operating income	33.9	1.0	9.6	2.1	46.6	0.1	46.7
Total income	1,676.4	585.2	287.8	600.2	3,149.6	98.1	3,247.7
Insurance claims	(1,086.8)	(287.7)	(135.6)	(363.6)	(1,873.7)	(41.6)	(1,915.3)
Insurance claims recoverable from/ (payable to) reinsurers	139.8	7.3	—	57.6	204.7	(8.1)	196.6
Net insurance claims	(947.0)	(280.4)	(135.6)	(306.0)	(1,669.0)	(49.7)	(1,718.7)
Of which:							
Current-year attritional	1,074.1	307.9	144.4	348.2	1,874.6	64.7	1,939.3
Prior-year reserve releases	(127.1)	(45.8)	(8.8)	(61.4)	(243.1)	(15.0)	(258.1)
Major weather events	n/a	18.3	n/a	19.2	37.5	n/a	37.5
Commission expenses	(48.2)	(38.1)	(9.7)	(112.3)	(208.3)	(32.6)	(240.9)
Operating expenses before restructuring and one-off costs	(366.4)	(124.9)	(69.2)	(121.5)	(682.0)	(24.3)	(706.3)
Total expenses	(414.6)	(163.0)	(78.9)	(233.8)	(890.3)	(56.9)	(947.2)
Operating profit	314.8	141.8	73.3	60.4	590.3	(8.5)	581.8
Restructuring and one-off costs[2]							(101.5)
Finance costs							(34.3)
Profit before tax							446.0
Underwriting profit	111.7	110.0	57.8	21.4	300.9		291.5
Loss ratio	64.3%	50.7%	49.9%	54.5%	58.4%		58.1%
Of which:							
Current-year attritional	72.9%	55.7%	53.1%	62.0%	65.6%		65.5%
Prior-year reserve releases	(8.6%)	(8.3%)	(3.2%)	(10.9%)	(8.5%)		(8.7%)
Major weather events	n/a	3.3%	n/a	3.4%	1.3%		1.3%
Commission ratio	3.3%	6.9%	3.6%	20.0%	7.3%		8.1%
Expense ratio	24.8%	22.5%	25.4%	21.7%	23.8%		23.9%
Combined operating ratio	92.4%	80.1%	78.9%	96.2%	89.5%		90.1%
Current-year combined operating ratio	101.0%	88.4%	82.1%	107.1%	98.0%		98.8%

The table below analyses the Group's assets and liabilities by reportable segment at 31 December 2021[3].

	Motor £m	Home £m	Rescue and other personal lines[1] £m	Commercial £m	Total Group - ongoing operations[1] £m	Run-off partnerships[1] £m	Total Group £m
Goodwill	130.4	45.8	28.7	10.1	215.0	—	215.0
Assets held for sale	29.2	3.5	0.6	7.4	40.7	0.5	41.2
Other segment assets	6,467.2	750.1	152.2	1,566.7	8,936.2	116.2	9,052.4
Segment liabilities	(4,551.2)	(550.3)	(92.5)	(1,143.9)	(6,337.9)	(74.0)	(6,411.9)
Segment net assets	2,075.6	249.1	89.0	440.3	2,854.0	42.7	2,896.7

Notes:

1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items. Run-off partnerships was previously included in Rescue and other personal lines segment and the comparative data for year ended 31 December 2021 has been re-presented accordingly.
2. See glossary on page 253 for definitions.
3. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

5. Net earned premium

	2022 £m	2021 £m
Gross earned premium:		
Gross written premium	**3,094.2**	3,171.6
Movement in unearned premium reserve	**38.0**	(3.6)
	3,132.2	3,168.0
Reinsurance premium paid and payable:		
Premium payable	**(141.6)**	(186.4)
Movement in reinsurance unearned premium reserve	**(24.1)**	(24.2)
	(165.7)	(210.6)
Total	**2,966.5**	2,957.4

6. Investment return

	2022 £m	2021 £m
Investment income:		
Interest income from:		
Debt securities	**78.7**	90.9
Cash and cash equivalents	**14.0**	0.2
Infrastructure debt	**7.9**	4.4
Commercial real estate loans	**8.8**	6.0
Interest income	**109.4**	101.5
Rental income from investment property	**15.6**	14.5
	125.0	116.0
Net realised (losses)/gains:		
AFS debt securities	**(24.9)**	7.9
Hedging	**(31.0)**	(5.2)
Investment property (note 20)	**–**	0.2
	(55.9)	2.9
Net unrealised (losses)/gains:		
Impairment of loans and receivables	**(1.8)**	(2.1)
Hedging	**25.0**	(8.1)
Investment property (note 20)	**(39.1)**	37.6
Equity investments held at FVTPL	**(1.6)**	–
	(17.5)	27.4
Total	**51.6**	146.3

Total investment return decreased by £94.7 million to £51.6 million (2021: £146.3 million) primarily driven by realised and unrealised losses resulting from write downs in fair value adjustments of commercial property (£39.1 million) and £24.9 million of realised losses from disposals of Group debt security holdings, predominantly relating to actions taken to reduce the Group's longer duration US dollar credit holding.

6. Investment return continued

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

	2022 £m	2021 £m
Foreign exchange hedging:		
Foreign exchange forward contracts[1]	**(184.1)**	(2.6)
Associated foreign exchange risk	**188.0**	1.9
Net gains/(losses) on foreign exchange hedging	**3.9**	(0.7)
Interest rate hedging:		
Gains on interest rate swaps[1] designated as hedge instruments	**68.8**	33.5
Change in fair value on designated hedge items	**(78.5)**	(35.1)
Interest rate hedging ineffectiveness	**(9.7)**	(1.6)
Undesignated interest rate hedging losses	**(0.2)**	(11.0)
Net losses on interest rate hedging	**(9.9)**	(12.6)
Total hedging losses	**(6.0)**	(13.3)

Note:
1. All foreign exchange forward contracts and certain interest rate swaps are measured at fair value through the income statement. There are also interest rate swaps designated as hedging instruments.

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

At 31 December 2022 the total USD and EUR denominated bonds was £916.4 million (2021: £1,574.2 million). The notional exposure of the interest rate swaps at 31 December 2022 was an asset of £240.4 million and a liability of £107.6 million (2021: asset of £901.0 million and a liability of £9.1 million). The hedged risk is the change in the fair value of the bonds which is attributable to changes in the SOFR and EURIBOR curves.

7. Other operating income

	2022 £m	2021 £m
Revenue from vehicle recovery and repair services	**24.2**	19.7
Vehicle replacement referral income	**14.6**	13.1
Legal services income	**4.9**	7.2
Other income[1]	**11.6**	6.7
Total	**55.3**	46.7

Note:
1. Other income includes arrangement and administration fee income.

8. Net insurance claims

	Gross 2022 £m	Reinsurance 2022 £m	Net 2022 £m	Gross 2021 £m	Reinsurance 2021 £m	Net 2021 £m
Current accident year claims paid	**1,355.3**	**(0.2)**	**1,355.1**	1,058.6	(1.1)	1,057.5
Prior accident years claims paid	**888.9**	**(69.2)**	**819.7**	793.2	(88.7)	704.5
Movement in insurance liabilities	**(26.2)**	**86.0**	**59.8**	63.5	(106.8)	(43.3)
Total	**2,218.0**	**16.6**	**2,234.6**	1,915.3	(196.6)	1,718.7

Claims handling expenses for the year ended 31 December 2022 of £188.9 million (2021: £188.4 million) have been included in the claims figures above.

9. Commission expenses

	2022 £m	2021 £m
Commission expenses	**207.5**	201.2
Expenses incurred under profit participations	**3.6**	39.7
Total	**211.1**	240.9

10. Operating expenses

	2022 £m	2021 £m
Staff costs[1]	**246.8**	268.8
IT and other operating expenses[1,2]	**180.1**	157.0
Marketing	**93.5**	112.0
Insurance levies	**93.4**	89.0
Depreciation, amortisation and impairment of intangible and fixed assets[3]	**131.0**	97.1
Loss on termination of property lease[4]	**–**	83.9
Total other operating expenses (including restructuring and one-off costs)	**744.8**	807.8
Of which restructuring and one-off costs[4,5]	**45.3**	101.5
Total excluding restructuring and one-off costs	**699.5**	706.3

Notes:
1. Staff costs and other operating expenses attributable to claims handling activities are allocated to the cost of insurance claims.
2. IT and other operating expenses include professional fees and property costs.
3. Includes right-of-use ("**ROU**") assets and property, plant and equipment. For the year ended 31 December 2022, there were impairment charges of £16.0 million which relate solely to impairment of intangible assets (2021: £2.6 million of which, £2.1 million relates to impairment of intangible assets and £0.5 million relates to ROU property assets).
4. In 2021, U K Insurance Limited signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease. The loss on termination of property lease related to the Bromley site was allocated to restructuring and one-off costs. The value of the fixed asset capitalised was £19.8 million.
5. Restructuring and one-off costs of £45.3 million (2021: £101.5 million) are included as follows: staff costs of £3.1 million (2021: £7.8 million), other operating expenses of £26.9 million (2021: £9.3 million), impairment charges of £15.2 million (2021: £nil) and depreciation of £nil (2021: £0.5 million). Restructuring and one-off costs primarily relate to the Group's decision to exit Travel packaged bank account partnership business and the continued reduction in the number of head office sites. It is expected that the Group will incur £2.0 million of additional restructuring and one-off costs in 2023 in relation to head office sites.

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

	At 31 December		Average for the year	
	2022	2021	**2022**	2021
Insurance operations	**6,523**	6,976	**6,828**	7,502
Repair centre operations	**1,508**	1,408	**1,433**	1,432
Support	**1,356**	1,402	**1,407**	1,382
Total	**9,387**	9,786	**9,668**	10,316

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

	2022 £m	2021 £m
Wages and salaries	**391.6**	392.8
Social security costs	**43.9**	42.6
Pension costs	**26.5**	26.1
Share-based payments	**8.2**	18.4
Total	**470.2**	479.9

The table below analyses Auditor's remuneration in respect of the Group's operations.

	2022 £m	2021 £m
Fees payable for the audit of:		
The Company's annual accounts	**0.4**	0.2
The Company's subsidiaries	**2.6**	1.9
Total audit fees	**3.0**	2.1
Audit-related assurance services	**0.2**	0.2
Non-audit services	**–**	0.3
Total[1]	**3.2**	2.6

Note:
1. Total audit fees, excluding VAT.

10. Operating expenses continued

Aggregate Directors' emoluments

The table below analyses the total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

	2022 £m	2021 £m
Salaries, fees, bonuses and benefits in kind	**2.6**	3.5
Gains on exercise of share options	**1.8**	0.8
Total	**4.4**	4.3

Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report.

At 31 December 2022, no Directors (2021: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2022, two Directors exercised share options (2021: two Directors).

11. Finance costs

	2022 £m	2021 £m
Interest expense on subordinated liabilities	**17.8**	33.6
Net interest received on interest rate swap[1]	**(2.2)**	(5.3)
Unrealised losses on interest rate swap[1]	**2.4**	5.8
Amortisation of arrangement costs, discount on issue and fair value hedging adjustment of subordinated liabilities	**(0.8)**	(3.0)
Interest expense on lease liabilities	**3.1**	3.2
Other interest expense	**0.1**	—
Total	**20.4**	34.3

Note:

1. As described in note 34, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year interest rate swap to exchange the fixed rate of interest on the notes for a floating rate. This was treated as a designated hedging instrument. On 8 December 2017, the Group redeemed £250 million nominal value of the notes and the hedging instrument was redesignated accordingly. On 31 July 2020, the Group identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 and, under the rules of the standard, the accumulated hedging adjustment was amortised to the income statement from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation. The remaining notes, with a nominal value of £250 million, were redeemed in full on 27 April 2022.

12. Tax (credit)/charge

	2022 £m	2021 £m
Current taxation:		
(Credit)/charge	**(9.8)**	102.6
Over-provision in respect of prior year	**(3.0)**	(8.3)
	(12.8)	94.3
Deferred taxation (note 13):		
Charge/(credit)	**3.2**	(1.1)
Under-provision in respect of prior year	**4.0**	9.1
	7.2	8.0
Current taxation	**(12.8)**	94.3
Deferred taxation (note 13)	**7.2**	8.0
Tax (credit)/charge for the year	**(5.6)**	102.3

The following table analyses the difference between the actual income tax (credit)/charge and the expected income tax (credit)/charge computed by applying the standard rate of corporation tax of 19.0%[1] (2021: 19.0%).

	2022 £m	2021 £m
(Loss)/profit for the year	**(45.1)**	446.0
Expected tax (credit)/charge	**(8.6)**	84.7
Effects of:		
Disallowable expenses	**3.4**	5.0
Lease surrender	**–**	17.3
Non-taxable items	**(0.3)**	(0.6)
Higher tax rates on overseas earnings	**0.1**	–
Effect of change in corporation taxation rate[1]	**0.3**	(1.7)
Under-provision in respect of prior year	**1.0**	0.8
Revaluation of property	**1.7**	–
Deductible Tier 1 notes coupon payment in equity	**(3.2)**	(3.2)
Tax (credit)/charge for the year	**(5.6)**	102.3
Effective income tax rate	**12.4%**	22.9%

Note:
1. In the Finance Act 2021, the UK Government enacted, on 10 June 2021, an increase in the UK corporation tax rate from 19% to 25% effective from 1 April 2023. As a consequence the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the temporary differences reverse. The impact of these changes on the tax (credit)/charge for the year is set out in the table above.

13. Current and deferred tax

The aggregate current and deferred tax relating to items that are credited to equity is £0.2 million (2021: £0.7 million).

The table below analyses the major deferred tax assets and liabilities recognised by the Group and movements thereon.

	Provisions and other temporary differences £m	Retirement benefit obligations £m	Depreciation in excess of capital allowances £m	Non-distributable reserve[1] £m	Share-based payments £m	AFS revaluation reserve £m	Total £m
At 1 January 2021	10.2	(1.8)	4.2	(4.9)	3.1	(19.5)	(8.7)
(Charge)/credit to the income statement	(4.0)	(0.5)	(8.9)	4.9	0.5	–	(8.0)
(Charge)/credit to other comprehensive income	–	(0.8)	–	–	–	17.1	16.3
Charge direct to equity	–	–	–	–	(0.1)	–	(0.1)
At 31 December 2021	6.2	(3.1)	(4.7)	–	3.5	(2.4)	(0.5)
(Charge)/credit to the income statement	**(1.4)**	**0.2**	**(4.3)**	**–**	**(1.7)**	**–**	**(7.2)**
Credit to other comprehensive income	**–**	**2.5**	**–**	**–**	**–**	**67.2**	**69.7**
At 31 December 2022	**4.8**	**(0.4)**	**(9.0)**	**–**	**1.8**	**64.8**	**62.0**

Note:
1. The non-distributable reserve was a statutory claims equalisation reserve calculated in accordance with the rules of the PRA. With the introduction of Solvency II on 1 January 2016, the requirement to maintain the claims equalisation reserve ceased and the balance at 31 December 2015 was released to retained earnings. The taxation of this release was spread over six years from the change in regulation. It was provided for in deferred tax above as it represented the future unwind of previously claimed tax deductions for transfers into the reserve. It was fully unwound at 31 December 2021.

In addition, the Group has an unrecognised deferred tax asset at 31 December 2022 of £13.0 million (2021: £12.8 million) in relation to capital losses of which £11.8 million (2021: £10.4 million) relates to realised losses and £1.2 million (2021: £2.4 million) relates to unrealised losses.

Deferred tax assets have been recognised in respect of AFS reserves and all other temporary differences because it is probable that these assets will be recovered, with the exception of unrecognised capital losses where recovery is uncertain as they are dependent on realising future capital gains. The deferred tax asset of £64.8 million in respect of AFS reserves relates to temporary differences arising from unrealised losses. These will be relieved for tax over 10 years as a result of the adoption of IFRS9 on 1 January 2023 triggering a tax transitional adjustment. Other deferred tax assets will be recovered over a period of one to 13 years. Recovery of deferred tax assets is dependent on future taxable profits which are expected to arise in future years without the one-off combination of factors which led to the trading loss for 2022. Probability of recovery has been assessed based on the Group's forecasts for the next four years which anticipate a return to profitability, and it is assumed that sufficient profits will continue to be realised in subsequent years for offset of the remaining future tax deductions.

14. Dividends and appropriations

	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the period:		
2022 interim dividend of 7.6 pence per share paid on 9 September 2022	**99.0**	–
2021 final dividend of 15.1 pence per share paid on 17 May 2022	**198.9**	–
2021 interim dividend of 7.6 pence per share paid on 3 September 2021	**–**	101.9
2020 final dividend of 14.7 pence per share paid on 20 May 2021	**–**	198.9
	297.9	300.8
Coupon payments in respect of Tier 1 notes[1]	**16.6**	16.6
	314.5	317.4
Proposed dividends:		
2021 final dividend of 15.1 pence per share	**–**	199.4

Note:

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

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2022 by £2.0 million (2021: £1.7 million).

15. (Loss)/earnings per share

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

Basic

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

Diluted

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

	2022 £m	2021 £m
(Loss)/earnings attributable to the owners of the Company	**(39.5)**	343.7
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
(Loss)/profit for the calculation of earnings per share	**(56.1)**	327.1
Weighted average number of Ordinary Shares for the purpose of basic earnings per share (millions)	**1,304.3**	1,335.8
Effect of dilutive potential of share options and contingently issuable shares (millions)	**15.0**	20.8
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share (millions)	**1,319.3**	1,356.6
Basic (loss)/earnings per share (pence)	**(4.3)**	24.5
Diluted (loss)/earnings per share (pence)	**(4.3)**	24.1

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

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

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

16. Net asset value per share and return on equity

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

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

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

	2022 £m	2021 £m
Net assets	**1,934.0**	2,550.2
Goodwill and other intangible assets[1]	**(822.2)**	(822.5)
Tangible net assets	**1,111.8**	1,727.7
Number of Ordinary Shares (millions)	**1,311.4**	1,330.7
Shares held by employee trusts (millions)	**(13.2)**	(13.4)
Closing number of Ordinary Shares (millions)	**1,298.2**	1,317.3
Net asset value per share (pence)	**149.0**	193.6
Tangible net asset value per share (pence)	**85.6**	131.2

Note:

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

Return on equity

The table below details the calculation of return on equity.

	2022 £m	2021 £m
(Loss)/earnings attributable to the owners of the Company	**(39.5)**	343.7
Coupon payments in respect of Tier 1 notes	**(16.6)**	(16.6)
(Loss)/profit for the calculation of return on equity	**(56.1)**	327.1
Opening shareholders' equity	**2,550.2**	2,699.7
Closing shareholders' equity	**1,934.0**	2,550.2
Average shareholders' equity	**2,242.1**	2,625.0
Return on equity	**(2.5%)**	12.5%

17. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2021	214.2	1,085.5	1,299.7
Acquisitions and additions	0.8	108.6	109.4
Disposals and write-off[1]	—	(12.0)	(12.0)
At 31 December 2021	215.0	1,182.1	1,397.1
Acquisitions and additions	**—**	**108.4**	**108.4**
Disposals and write-off[1]	**—**	**(71.7)**	**(71.7)**
At 31 December 2022	**215.0**	**1,218.8**	**1,433.8**
Accumulated amortisation and impairment			
At 1 January 2021	—	512.9	512.9
Amortisation charge for the year	—	71.6	71.6
Disposals and write-off[1]	—	(12.0)	(12.0)
Impairment losses[2]	—	2.1	2.1
At 31 December 2021	—	574.6	574.6
Amortisation charge for the year	**—**	**92.7**	**92.7**
Disposals and write-off[1]	**—**	**(71.7)**	**(71.7)**
Impairment losses[2]	**—**	**16.0**	**16.0**
At 31 December 2022	**—**	**611.6**	**611.6**

	Goodwill £m	Other intangible assets £m	Total £m
Carrying amount			
At 31 December 2022	**215.0**	**607.2**	**822.2**
At 31 December 2021	215.0	607.5	822.5

Notes:
1. Disposals and write-off include fully amortised intangible assets no longer utilised by the Group in its operating activities.
2. Impairment losses relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems.

Included within other intangible assets are assets still in development of £95.1 million (2021: £72.8 million). The increase of £22.3 million is primarily due to the building of a new Home platform and of new capabilities for the Group's Motor platform. The assets still in development at 31 December 2022 relate mainly to finance and core technology projects which are expected to be ready for use in 2023. These assets are tested for impairment during the Group's annual impairment review at each reporting date.

Other intangible assets relate mainly to internally generated software. For year ended 31 December 2022, other intangible assets additions, which are internally generated, are £106.1 million (2021: £105.9 million).

Goodwill arose on the acquisition of U K Insurance Limited (£141.0 million), Churchill Insurance Company Limited (£70.0 million) and accident repair networks (£4.0 million) and is allocated to reportable segments. The addition to goodwill in the year ended 31 December 2021 of £0.8 million arose from the purchase of the business and assets of a vehicle repair workshop. There are no additions to goodwill in the year ended 31 December 2022.

The Group's testing for impairment of goodwill and intangible assets includes the comparison of the recoverable amount of each CGU to which goodwill and other intangible assets have been allocated with its carrying value and is updated at each reporting date and whenever there are indications of impairment.

The table below analyses the carrying amount of goodwill allocated to each CGU.

	2022 £m	2021 £m
Motor	**130.4**	130.4
Home	**45.8**	45.8
Rescue and other personal lines	**28.7**	28.7
Commercial	**10.1**	10.1
Run-off partnerships	**—**	—
Total	**215.0**	215.0

There is no goodwill impairment for the year ended 31 December 2022 (2021: £nil).

The recoverable amount is the higher of the CGU fair value less the costs to sell and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the estimated amount that could be obtained from the sale of the CGU in an arm's-length transaction between knowledgeable and willing parties.

The recoverable amounts of all CGUs were based on the value-in-use test, using the Group's strategic plan. The long-term growth rates have been based on gross domestic product rates adjusted for inflation. The risk discount rates incorporate observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

Sensitivity information is included to enhance user understanding of the influence of key assumptions. Following the annual impairment review, no reasonable possible change in these key assumptions would have resulted in an impairment of goodwill and other intangible assets.

	Assumptions		Sensitivity: impact on recoverable amount of a:		
	Terminal growth rate	Pre-tax discount rate	1% decrease in terminal growth rate	1% increase in pre-tax discount rate	1% decrease in forecast pre-tax profit[1]
CGU	%	%	£m	£m	£m
Motor	1.5	11.4	(197.0)	(283.2)	(292.0)
Home	1.5	11.4	(33.6)	(48.7)	(53.1)
Rescue and other personal lines	1.5	11.4	(48.8)	(69.8)	(70.5)
Commercial	1.5	11.4	(65.5)	(94.4)	(99.7)

Note:

1. Reflects a 1% decrease in the profit for each year of the Group's strategic plan, which is five years.

18. Property, plant and equipment

	Land and buildings	Other equipment	Total
	£m	£m	£m
Cost			
At 1 January 2021	79.8	195.9	275.7
Additions	19.8	9.5	29.3
Disposals	–	(7.4)	(7.4)
Assets held for sale	(42.9)	(12.7)	(55.6)
At 31 December 2021	56.7	185.3	242.0
Additions	**–**	**11.7**	**11.7**
Disposals	**–**	**(7.0)**	**(7.0)**
Assets held for sale	**(19.8)**	**(15.8)**	**(35.6)**
At 31 December 2022	**36.9**	**174.2**	**211.1**
Accumulated depreciation and impairment			
At 1 January 2021	7.5	122.1	129.6
Depreciation charge for the year	1.2	10.9	12.1
Disposals	–	(5.1)	(5.1)
Assets held for sale	(4.3)	(4.1)	(8.4)
At 31 December 2021	4.4	123.8	128.2
Depreciation charge for the year	**0.8**	**11.6**	**12.4**
Disposals	**–**	**(5.5)**	**(5.5)**
Assets held for sale	**(0.6)**	**(7.1)**	**(7.7)**
At 31 December 2022	**4.6**	**122.8**	**127.4**

Carrying amount			
At 31 December 2022	**32.3**	**51.4**	**83.7**
At 31 December 2021	52.3	61.5	113.8

The Group is satisfied that the aggregate fair value of property, plant and equipment is not less than its carrying value.

19. Right-of-use assets

	Property £m	Motor vehicles £m	IT equipment £m	Total £m
Cost				
At 1 January 2021	195.4	12.6	1.2	209.2
Additions	4.5	1.2	—	5.7
Modifications	27.8	—	—	27.8
Disposals	(111.1)	(2.9)	—	(114.0)
At 31 December 2021	116.6	10.9	1.2	128.7
Additions	**4.4**	**2.4**	**—**	**6.8**
Disposals	**—**	**(3.7)**	**(1.2)**	**(4.9)**
At 31 December 2022	**121.0**	**9.6**	**—**	**130.6**
Accumulated depreciation and impairment				
At 1 January 2021	63.6	7.1	0.7	71.4
Depreciation charge for the year	7.3	3.2	0.3	10.8
Disposals	(27.2)	(2.9)	—	(30.1)
Impairment losses	0.5	—	—	0.5
At 31 December 2021	44.2	7.4	1.0	52.6
Depreciation charge for the year	**7.1**	**2.6**	**0.2**	**9.9**
Disposals	**—**	**(3.7)**	**(1.2)**	**(4.9)**
At 31 December 2022	**51.3**	**6.3**	**—**	**57.6**
Carrying amount				
At 31 December 2022	**69.7**	**3.3**	**—**	**73.0**
At 31 December 2021	72.4	3.5	0.2	76.1

20. Investment property

	Retail £m	Retail warehouse £m	Supermarkets £m	Office £m	Industrials £m	Hotels £m	Alternative sector £m	**Total £m**
At 1 January 2021	31.5	19.9	52.0	10.0	105.3	55.5	17.9	292.1
Fair value adjustments	(1.5)	2.7	4.9	(0.4)	28.9	2.9	0.3	37.8
Disposals	—	—	—	(9.6)	—	—	—	(9.6)
Transferred to assets held for sale (note 30)	(3.4)	—	—	—	—	—	—	(3.4)
Capitalised expenditure	—	0.1	—	—	—	—	—	0.1
At 31 December 2021[1]	**26.6**	**22.7**	**56.9**	**—**	**134.2**	**58.4**	**18.2**	**317.0**
Fair value adjustments	**(1.6)**	**(1.6)**	**(5.8)**	**—**	**(22.3)**	**(8.1)**	**0.3**	**(39.1)**
Capitalised expenditure	**0.3**	**0.2**	**—**	**—**	**0.1**	**—**	**—**	**0.6**
At 31 December 2022[1]	**25.3**	**21.3**	**51.1**	**—**	**112.0**	**50.3**	**18.5**	**278.5**

Note:
1. The cost included in the carrying value at 31 December 2022 is £216.4 million (2021: £215.8 million).

The investment properties are measured at fair value derived from valuation work carried out at the balance sheet date by independent property valuers.

The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2021.

Lease agreements with tenants are drawn up in line with local practice and the Group has no exposure to leases that include contingent rents.

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

		-50bp	-5bp	Baseline as at 31 December 2022	+5bp	+50bp
Equivalent yield	%	4.983	5.472	5.526	5.580	6.066
Value	£m	253.5	275.4	278.5	280.9	308.1

21. Subsidiaries

The principal subsidiary undertakings of the Group, over which it exercises 100% voting power, are shown below. Their capital consists of Ordinary Shares which are unlisted. All subsidiaries (a full list of which is included in note 2 of the Parent Company's financial statements) are included in the Group's consolidated financial statements.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
DL Insurance Services Limited	03001989	United Kingdom	Management services
U K Insurance Limited	01179980	United Kingdom	General insurance

The Group did not acquire or dispose of any subsidiaries in the year ended 31 December 2022 (31 December 2021: no acquisitions or disposals).

22. Reinsurance assets

	Notes	2022 £m	2021 £m
Reinsurers' share of general insurance liabilities		**1,078.5**	1,169.6
Impairment provision[1]		**(32.4)**	(37.5)
Total excluding reinsurers' unearned premium reserves	35	**1,046.1**	1,132.1
Reinsurers' unearned premium reserve	36	**55.6**	79.7
Total		**1,101.7**	1,211.8

Note:

1. Impairment provision relates to reinsurance debtors, allowing for the risk that reinsurance assets may not be collected, or where one or more reinsurers' credit rating has been significantly downgraded and it may have difficulty in meeting its obligations. Of this amount a total of £0.1 million is past due (2021: £6.7 million).

Movements in reinsurance asset impairment provisions

	2022 £m	2021 £m
At 1 January	**(37.5)**	(46.3)
Additional provision	**(2.1)**	(3.2)
Released to income statement	**7.2**	12.0
At 31 December	**(32.4)**	(37.5)

The reinsurance asset impairment provisions include a provision for non-recovery of reinsurance receivables arising from specific incurred claims of £6.1 million (2021: £6.1 million). The remaining provision of £26.3 million (2021: £31.4 million) relates to potential credit risk exposure associated with the long-term nature of reinsurance receivables.

23. Deferred acquisition costs

	2022 £m	2021 £m
At 1 January	**186.6**	172.2
Additions	**395.7**	400.7
Recognised in the income statement	**(394.0)**	(386.3)
At 31 December	**188.3**	186.6

24. Insurance and other receivables

	2022 £m	2021 £m
Receivables arising from insurance contracts:		
Due from policyholders	**600.8**	609.2
Impairment provision of policyholder receivables	**(1.9)**	(1.7)
Due from agents, brokers and intermediaries	**119.1**	81.3
Impairment provision of agent, broker and intermediary receivables	**(0.4)**	(0.1)
Amounts due from reinsurers	**34.5**	41.0
Other debtors[1]	**39.5**	33.1
Total	**791.6**	762.8

Note:
1. The other debtors balance is comprised a number of smaller balances, each of which is non-material in nature.

Movement in impairment provisions during the year

	Policyholders £m	Agents, brokers and intermediaries £m	Total £m
At 1 January 2022	**1.7**	**0.1**	**1.8**
Additional provision	**4.5**	**0.5**	**5.0**
Released to income statement	**(4.3)**	**(0.2)**	**(4.5)**
At 31 December 2022	**1.9**	**0.4**	**2.3**

25. Prepayments, accrued income and other assets

	2022 £m	2021 £m
Prepayments	**83.5**	89.1
Accrued income from contracts with customers and other assets	**22.3**	36.0
Total	**105.8**	125.1

26. Derivative financial instruments

	2022 £m	2021 £m
Derivative assets		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**24.2**	27.8
Interest rate swaps	**–**	2.4
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**0.1**	–
Interest rate swaps	**7.0**	5.7
Total	**31.3**	35.9
Derivative liabilities		
At fair value through the income statement:		
Foreign exchange contracts (forwards)	**28.4**	19.1
Designated as hedging instruments:		
Foreign exchange contracts (forwards)[1]	**–**	0.2
Interest rate swaps	**1.2**	0.2
Total	**29.6**	19.5

Note:
1. Foreign exchange contracts (forwards) are designated as cash flow hedges in relation to supplier payments.

27. Retirement benefit obligations

Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2022 was £26.5 million (2021: £26.1 million).

Defined benefit scheme

The Group's defined benefit pension scheme was closed in 2003, although the Group remains the sponsoring employer for obligations to current and deferred pensioners based on qualifying years' service and final salaries. The defined benefit scheme is legally separated from the Group with a trustee who is required by law to act in the interests of the scheme and of all the relevant stakeholders. The trustee of the pension scheme is responsible for the investment policy with regard to the assets of the scheme.

In October 2022, the trustee completed a £53.9 million bulk annuity insurance buy-in transaction whereby the assets of the pension scheme were replaced with an insurance asset. The policy purchased is designed to provide cash flows that exactly match the value and timing of the benefits to the defined benefit scheme's members, so removing the risks impacting funding levels such as changes in interest rates and inflation expectations or the performance of the previously invested assets for the members covered by the policy. The non-insured assets are now primarily intended to cover the costs of meeting any additional liability for members of the defined contribution section who have a defined benefit underpin that exceeds the value of the defined contribution funds as well as being available to meet expenses.

The weighted average duration of the defined benefit obligations at 31 December 2022 is 17 years (2021: 20 years) using accounting assumptions.

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations.

	2022	2021
	%	%
Rate of increase in pension payment	**2.5**	2.6
Rate of increase in deferred pensions	**2.6**	2.6
Discount rate	**4.8**	2.0
Inflation rate	**3.3**	3.3

No assumption has been made for salary growth as there are no obligations in the scheme that are linked to future increases in salaries.

Post-retirement mortality assumptions

	2022	2021
Life expectancy at age 60 now:		
Males	**87.2**	87.5
Females	**89.2**	89.4
Life expectancy at age 60 in 20 years' time:		
Males	**89.2**	89.3
Females	**91.0**	91.2

The table below analyses the fair value of the scheme assets by type of asset.

	2022	2021
	£m	£m
Insurance policies[1]	**48.8**	—
Index-linked bonds	**0.3**	32.3
Government bonds	**0.5**	27.9
Liquidity fund[2]	**0.1**	0.5
Dynamic bond fund[3]	**—**	41.6
Defined contribution section funds[4]	**1.7**	5.4
Other	**2.0**	0.5
Total	**53.4**	108.2

Notes:

1. Insurance policies are valued at the present value of the related obligations.
2. The liquidity fund is an investment in an open-ended fund incorporated in the Republic of Ireland which targeted capital stability and income in the UK. It is invested in short-term fixed income and variable rate securities (such as treasury bills) listed or traded on one or more recognised exchanges.
3. The dynamic bond fund targets positive returns on a three-year rolling basis. It was invested to maximise the total return from a globally diversified portfolio, predominantly comprising high-yielding corporate and government bonds.
4. The defined contribution section funds relate to members in that section who have a defined benefit underpin that exceeds the value of the defined contribution funds. The investments are largely in a diversified growth fund. The corresponding liability is included in the defined benefit scheme obligation (see the movement in net pension surplus table on page 228).

The majority of debt instruments held directly or through the liquidity fund have quoted prices in active markets.

27. Retirement benefit obligations continued

Movement in net pension surplus

	Fair value of defined benefit scheme assets £m	Present value of defined benefit scheme obligations £m	Net pension surplus £m
At 1 January 2021	107.7	(98.7)	9.0
Income statement:			
Net interest income/(cost)[1]	1.5	(1.4)	0.1
Administration costs	(0.8)	–	(0.8)
Statement of comprehensive income:			
Remeasurement gains			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	2.2	–	2.2
Actuarial gains of defined benefit scheme			
Experience losses	–	(5.8)	(5.8)
Gains from change in demographic assumptions	–	0.2	0.2
Gains from change in financial assumptions	–	7.2	7.2
Benefits paid	(2.4)	2.4	–
At 31 December 2021	108.2	(96.1)	12.1
Income statement:			
Net interest income/(cost)[1]	**2.1**	**(1.9)**	**0.2**
Administration costs	**(0.9)**	**–**	**(0.9)**
Statement of comprehensive income:			
Remeasurement losses			
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**(53.3)**	**–**	**(53.3)**
Actuarial gains of defined benefit scheme			
Experience gains	**–**	**0.3**	**0.3**
Gains from change in demographic assumptions	**–**	**0.5**	**0.5**
Gains from change in financial assumptions	**–**	**42.7**	**42.7**
Benefits paid	**(2.7)**	**2.7**	**–**
At 31 December 2022	**53.4**	**(51.8)**	**1.6**

Note:
1. The net interest income/(cost) in the income statement has been included under other operating expenses.

The table below details the history of the scheme for the current and prior years.

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Present value of defined benefit scheme obligations	**(51.8)**	(96.1)	(98.7)	(90.3)	(78.6)
Fair value of defined benefit scheme assets	**53.4**	108.2	107.7	100.0	95.6
Net pension surplus	**1.6**	12.1	9.0	9.7	17.0
Experience gains/(losses) on scheme liabilities	**0.3**	(5.8)	2.4	0.4	–
Return on plan assets excluding amounts included in the net interest on the defined benefit asset	**(53.3)**	2.2	9.0	4.4	(3.5)

Sensitivity analysis

The sensitivity analysis has been calculated by valuing the pension scheme liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The pension cost has been determined allowing for the estimated impact on the scheme's assets. Following the purchase of the insurance policy to cover the benefits of the defined benefit section members, the scheme's asset and liabilities move by the same amount in respect of these members. The selection of these movements to illustrate the sensitivity of the defined benefit obligation to key assumptions should be viewed as illustrative, rather than providing a view on the likely size of any change.

	Impact on pension cost		Impact on present value of defined benefit scheme obligations	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Discount rate				
1.0% increase in discount rate (2021: 0.25% increase in discount rate)	**–**	–	**(7.3)**	(4.8)
1.0% decrease in discount rate (2021: 0.25% decrease in discount rate)	**–**	0.2	**8.7**	4.8
Inflation rate				
1.0% increase in inflation rate (2021: 0.25% increase in inflation rate)	**–**	–	**2.8**	2.4
1.0% decrease in inflation rate (2021: 0.25% decrease in inflation rate)	**–**	–	**(2.6)**	(2.4)
Life expectancy				
1-year increase in life expectancy	**–**	0.1	**2.6**	3.0
1-year decrease in life expectancy	**–**	(0.1)	**(2.6)**	(3.0)

The most recent funding valuation of the Group's defined benefit scheme was carried out as at 1 October 2020. This showed an excess of assets over liabilities. The Group agreed with the trustee to make contributions of up to £1.5 million per annum in 2022, 2023 and 2024, in the event that a deficit subsequently emerges on the anniversary of the funding valuation date.

At the date of signing these financial statements, no contributions are expected to be payable in 2023 (2022: £nil).

28. Financial investments

	2022 £m	2021 £m
AFS debt securities		
Corporate	**2,605.1**	4,006.9
Supranational	**25.2**	14.0
Local government	**5.9**	28.1
Sovereign	**511.3**	35.6
Total	**3,147.5**	4,084.6
HTM debt securities		
Corporate	**98.2**	91.2
Total debt securities	**3,245.7**	4,175.8
Total debt securities		
Fixed interest rate[1]	**3,232.1**	4,158.3
Floating interest rate	**13.6**	17.5
Total	**3,245.7**	4,175.8
Loans and receivables		
Infrastructure debt	**238.2**	250.8
Commercial real estate loans	**199.1**	200.8
Other loans	**1.9**	–
Total loans and receivables	**439.2**	451.6
Equity investments[2]	**13.6**	6.2
Total	**3,698.5**	4,633.6

Notes:
1. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2022 was £401.8 million (2021: £1,005.6 million).
2. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

29. Cash and cash equivalents and borrowings

	2022 £m	2021 £m
Cash at bank and in hand	**124.8**	162.8
Short term deposits with credit institutions[1]	**878.8**	792.9
Cash and cash equivalents	**1,003.6**	955.7
Bank overdrafts[2]	**(65.2)**	(59.2)
Cash and bank overdrafts[3]	**938.4**	896.5

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

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2022 was 1.46% (2021: 0.16%) and average maturity was 10 days (2021: 10 days).

30. Assets held for sale

	2022 £m	2021 £m
Property, plant and equipment	**37.0**	36.8
Investment property	**3.9**	4.4
Total assets held for sale	**40.9**	41.2

The Group is able to reduce the number of office sites it needs by changing the way it uses its premises so that they support collaboration, training and teamwork rather than being an everyday place of work for most people.

Assets held for sale at 31 December 2022 relate to office sites in Bromley, Ipswich and Leeds (including retail space within the Bromley and Leeds properties) that are no longer required. The balance at 31 December 2021 included a property in Birmingham which was disposed of in 2022. The office site in Bromley was moved into assets held for sale in 2022.

A net impairment loss of £8.9 million (2021: £9.4 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of these three properties to their held for sale values.

31. Share capital

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

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

Additional information including the number of shares authorised for issue is available in the Directors' Report on page 163.

Employee trust shares

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

At 31 December 2022, 13,214,811 Ordinary Shares (2021: 13,442,422 Ordinary Shares) were owned by the employee share trusts at a cost of £39.0 million (2021: £41.4 million). These Ordinary Shares are carried at cost and at 31 December 2022 had a market value of £29.2 million (2021: £37.5 million).

32. Other reserves

Movements in the AFS investments revaluation reserve

	2022 £m	2021 £m
At 1 January	**9.0**	83.9
Revaluation during the year – gross	**(295.8)**	(84.1)
Revaluation during the year – tax	**73.4**	15.1
Net losses/(gains) transferred to income statement on disposals - gross	**24.9**	(7.9)
Net (losses)/gains transferred to income statement on disposals - tax	**(6.2)**	2.0
At 31 December	**(194.7)**	9.0

Capital reserves

	2022 £m	2021 £m
Capital contribution reserve[1]	**100.0**	100.0
Capital redemption reserve[2]	**1,356.9**	1,354.8
Total	**1,456.9**	1,454.8

Notes:
1. Arose on the cancellation of a debt payable to a shareholder.
2. £1,350.0 million arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve. Further additions of £2.1 million in 2022, £3.7 million in 2021 and £1.1 million in 2020 were made when shares repurchased through buyback were cancelled.

33. Tier 1 notes

	2022 £m	2021 £m
Tier 1 notes	**346.5**	346.5

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

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

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

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

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

34. Subordinated liabilities

	2022 £m	2021 £m
£250 million 9.25% subordinated Tier 2 notes due 2042	**–**	255.2
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.6**	258.4
Subordinated Tier 2 notes	**258.6**	513.6

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

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

34. Subordinated liabilities continued

£250 million 9.25% subordinated Tier 2 notes due 2042

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

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

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

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

£260 million 4.0% subordinated Tier 2 notes due 2032

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

35. Insurance liabilities

	2022 £m	2021 £m
Insurance liabilities	**3,654.3**	3,680.5

Gross insurance liabilities

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,184.0	2,094.5	2,118.1	2,157.7	2,217.3	2,300.1	2,110.4	1,847.3	1,955.8	2,294.1	
One year later	(117.6)	20.7	(30.0)	(86.7)	(116.2)	(62.3)	(67.2)	(116.8)	(52.5)		
Two years later	(153.0)	(38.4)	(143.5)	(53.3)	(103.1)	(52.0)	(56.1)	(34.4)			
Three years later	(21.0)	(144.9)	(62.4)	(82.8)	(42.4)	(9.5)	(14.0)				
Four years later	(102.1)	(50.2)	(22.9)	(46.1)	(21.0)	(15.4)					
Five years later	(50.8)	(51.6)	(22.0)	(16.7)	(12.8)						
Six years later	(27.4)	(33.6)	(9.0)	(27.0)							
Seven years later	(14.0)	(6.5)	(9.3)								
Eight years later	(0.3)	(17.4)									
Nine years later	(3.0)										
Current estimate of cumulative claims	1,694.8	1,772.6	1,819.0	1,845.1	1,921.8	2,160.9	1,973.1	1,696.1	1,903.3	2,294.1	
Cumulative payments to date	(1,686.7)	(1,715.3)	(1,732.9)	(1,772.1)	(1,799.4)	(1,913.3)	(1,669.7)	(1,326.3)	(1,351.3)	(1,208.7)	
Gross liability recognised in balance sheet	**8.1**	**57.3**	**86.1**	**73.0**	**122.4**	**247.6**	**303.4**	**369.8**	**552.0**	**1,085.4**	**2,905.1**
2012 and prior											**663.0**
Claims handling provision											**86.2**
Total											**3,654.3**

Net insurance liabilities

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate net claims costs:											
At end of accident year	2,093.9	1,971.0	1,926.7	1,922.2	2,016.9	2,125.9	1,941.2	1,674.5	1,791.8	2,205.2	
One year later	(123.6)	(29.7)	(67.0)	(18.9)	(79.7)	(41.4)	(34.5)	(88.1)	(35.0)		
Two years later	(134.4)	(42.0)	(77.8)	(38.2)	(65.3)	(27.1)	(54.5)	(44.7)			
Three years later	(27.8)	(100.7)	(30.4)	(43.7)	(14.0)	(27.6)	(5.7)				
Four years later	(64.3)	(41.3)	(24.1)	(16.9)	(39.7)	(3.1)					
Five years later	(38.9)	(52.5)	(20.7)	(12.4)	(15.1)						
Six years later	(17.7)	(8.3)	(4.6)	(16.8)							
Seven years later	(10.6)	(8.0)	(7.4)								
Eight years later	0.4	(6.0)									
Nine years later	(2.7)										
Current estimate of cumulative claims	1,674.3	1,682.5	1,694.7	1,775.3	1,803.1	2,026.7	1,846.5	1,541.7	1,756.8	2,205.2	
Cumulative payments to date	(1,667.2)	(1,670.6)	(1,665.2)	(1,736.2)	(1,737.0)	(1,888.7)	(1,642.8)	(1,301.9)	(1,333.9)	(1,208.4)	
Net liability recognised in balance sheet	**7.1**	**11.9**	**29.5**	**39.1**	**66.1**	**138.0**	**203.7**	**239.8**	**422.9**	**996.8**	**2,154.9**
2012 and prior											**367.1**
Claims handling provision											**86.2**
Total											**2,608.2**

Movements in gross and net insurance liabilities

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,762.0	(842.8)	1,919.2
Incurred but not reported	777.0	(182.5)	594.5
Claims handling provision	78.0	—	78.0
At 1 January 2021	3,617.0	(1,025.3)	2,591.7
Cash paid for claims settled in the year	(1,851.8)	89.8	(1,762.0)
Increase/(decrease) in liabilities:			
Arising from current-year claims	2,142.9	(166.1)	1,976.8
Arising from prior-year claims	(227.6)	(30.5)	(258.1)
At 31 December 2021	3,680.5	(1,132.1)	2,548.4
Claims reported	2,840.0	(885.2)	1,954.8
Incurred but not reported	761.8	(246.9)	514.9
Claims handling provision	78.7	—	78.7
At 31 December 2021	3,680.5	(1,132.1)	2,548.4
Cash paid for claims settled in the year	**(2,244.2)**	**69.4**	**(2,174.8)**
Increase/(decrease) in liabilities:			
Arising from current-year claims	**2,486.8**	**(89.0)**	**2,397.8**
Arising from prior-year claims	**(268.8)**	**105.6**	**(163.2)**
At 31 December 2022	**3,654.3**	**(1,046.1)**	**2,608.2**
Claims reported	**2,941.0**	**(835.7)**	**2,105.3**
Incurred but not reported	**627.1**	**(210.4)**	**416.7**
Claims handling provision	**86.2**	**—**	**86.2**
At 31 December 2022	**3,654.3**	**(1,046.1)**	**2,608.2**

35. Insurance liabilities continued

Movement in prior-year net claims liabilities by operating segment

	2022 £m	2021 £m
Motor	**(66.4)**	(127.1)
Home	**(19.6)**	(45.8)
Rescue and other personal lines - ongoing operations	**(0.8)**	(8.8)
Commercial	**(54.0)**	(61.4)
Total Group - ongoing operations	**(140.8)**	(243.1)
Run-off partnerships	**(22.4)**	(15.0)
Total Group	**(163.2)**	(258.1)

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

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

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2022 and 31 December 2021. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	Discounted 2022 £m	Undiscounted 2022 £m	Discounted 2021 £m	Undiscounted 2021 £m
Gross claims				
Approved PPO claims provisions	**497.0**	**1,393.2**	564.4	1,260.9
Anticipated PPOs	**135.8**	**301.3**	193.4	408.7
Total	**632.8**	**1,694.5**	757.8	1,669.6
Reinsurance				
Approved PPO claims provisions	**(269.5)**	**(793.1)**	(316.2)	(731.4)
Anticipated PPOs	**(91.7)**	**(232.5)**	(142.1)	(313.8)
Total	**(361.2)**	**(1,025.6)**	(458.3)	(1,045.2)
Net of reinsurance				
Approved PPO claims provisions	**227.5**	**600.1**	248.2	529.5
Anticipated PPOs	**44.1**	**68.8**	51.3	94.9
Total	**271.6**	**668.9**	299.5	624.4

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

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term cashflow-weighted average rate is assumed to be 4.2% (2021: 3.5%). The Group has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 5.1% (2021: 3.5%), which results in a real discount rate of 0.9% (2021: 0%). The Group will continue to review the inflation and discount rates used to calculate these insurance reserves.

36. Unearned premium reserve

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2021	1,497.1	(103.9)	1,393.2
Written in the period	3,171.6	(186.4)	2,985.2
Earned in the period	(3,168.0)	210.6	(2,957.4)
At 31 December 2021	1,500.7	(79.7)	1,421.0
Written in the period	**3,094.2**	**(141.6)**	**2,952.6**
Earned in the period	**(3,132.2)**	**165.7**	**(2,966.5)**
At 31 December 2022	**1,462.7**	**(55.6)**	**1,407.1**

37. Share-based payments

The Group operates equity-settled, share-based compensation plans in the form of a Long-Term Incentive Plan ("**LTIP**"), a Restricted Shares Plan, a Deferred Annual Incentive Plan ("**DAIP**") and Direct Line Group Share Incentive Plans, including both the Free Share awards and a Buy-As-You-Earn Plan, details of which are set out below. All awards are to be satisfied using market-purchased shares.

Long-Term Incentive Plan

Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards granted in the form of nil-cost options. Under the plan, the shares vest at the end of a three-year period dependent upon the continued employment by the Group and also the Group achieving predefined performance conditions associated with Total Shareholder Return ("**TSR**"), return on tangible equity ("**RoTE**") and from 2022, emissions. The Executive Directors are subject to an additional two-year holding period following the three-year vesting period.

Awards were made in the year ended 31 December 2022 over 4.5 million Ordinary Shares with an estimated fair value of £10.7 million at the 2022 grant dates (2021: 3.6 million Ordinary Shares with an estimated fair value of £11.3 million).

The estimated fair value of the LTIP share awards with market-based performance conditions was calculated using a Monte Carlo simulation model.

The table below details the inputs into the model.

	2022	2021
Weighted average assumptions during the year:		
Share price (pence)	**243**	315
Exercise price (pence)	**0**	0
Volatility of share price	**29%**	26%
Average comparator volatility	**41%**	40%
Expected life	**3 years**	3 years
Risk-free rate	**2.09%**	0.16%

Expected volatility was determined by considering the actual volatility of the Group's share price since its initial public offering and that of a group of listed UK insurance companies.

Plan participants are entitled to receive additional shares in respect of dividends paid to shareholders over the vesting period. Therefore, no deduction has been made from the fair value of awards in respect of dividends.

Expected life was based on the contractual life of the awards and adjusted based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Restricted Shares Plan

The purpose of the Restricted Shares Plan is to facilitate the wider participation in Group share-based awards of eligible employees. These awards can be granted in the form of a nil-cost option at any time during the year, generally have no performance criteria, and vest over periods ranging up to seven years from the date of the grant, subject to continued employment. During the year awards were made of 1.0 million Ordinary Shares (2021: 1.1 million Ordinary Shares) with an estimated fair value of £2.6 million (2021: £3.2 million) using the market value at the date of grant.

Deferred Annual Incentive Plan

To incentivise delivery of performance over a one-year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the Annual Incentive Plan ("**AIP**"), of which at least 40% is granted in the form of a nil-cost option under the DAIP with the remainder being settled in cash following year end. During the year awards were made over 1.6 million Ordinary Shares (2021: 1.4 million Ordinary Shares) under this plan with an estimated fair value of £4.2 million (2021: £4.5 million) using the market value at the date of grant.

The awards outstanding at 31 December 2022 have no performance criteria attached; there is a requirement that the employee remains in employment with the Group for three years from the date of grant.

Direct Line Group Share Incentive Plans: Free Share awards

In early 2021, the Group offered all eligible employees a Free Share award granting 112 Ordinary Shares free of charge as a measure of thanks to the employees for the part they played in the good results that the Group reported for 2020. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to completion of three years' continuing employment. The Group initially granted 1.2 million Ordinary Shares with an estimated fair value of £3.7 million using the market value at the date of grant.

Direct Line Group Share Incentive Plans: Buy-As-You-Earn Plan

The Buy-As-You-Earn Plan entitles employees to purchase shares from pre-tax pay for between £10 and £150 per month and receive one matching share for every two shares purchased.

In the year ended 31 December 2022, matching share awards were granted over 0.7 million Ordinary Shares (2021: 0.6 million Ordinary Shares) with an estimated fair value of £1.7 million (2021: £1.8 million). The fair value of each matching share award is estimated using the market value at the date of grant.

Under the plan, the shares vest at the end of a three-year period dependent upon continued employment with the Group together with continued ownership of the associated purchased shares up to the point of vesting.

37. Share-based payments continued

Movement in total share awards

	Number of share awards 2022 millions	2021 millions
At 1 January	**28.4**	26.9
Granted during the year[1]	**9.8**	9.4
Forfeited during the year	**(4.3)**	(2.9)
Exercised during the year	**(5.2)**	(5.0)
At 31 December	**28.7**	28.4
Exercisable at 31 December	**2.2**	2.6

Note:
1. In accordance with the rules of the LTIP, Restricted Shares Plan and DAIP, additional awards of 2.0 million shares were granted during the year ended 31 December 2022 (2021: 1.5 million) in respect of the equivalent dividend.

In respect of the outstanding options at 31 December 2022, the weighted average remaining contractual life is 1.56 years (2021: 1.64 years). No share awards expired during the year (2021: nil).

The weighted average share price for awards exercised during the year ended 31 December 2022 was £2.41 (2021: £3.06).

The Group recognised total expenses in the year ended 31 December 2022 of £8.2 million (2021: £18.4 million) relating to equity-settled share-based compensation plans.

Further information on share-based payments, in respect of Executive Directors, is provided in the Directors' Remuneration Report.

38. Provisions

Movement in provisions during the year

	Regulatory levies £m	Restructuring £m	Other[1] £m	Total £m
At 1 January 2022	**48.2**	**13.7**	**34.5**	**96.4**
Reclassification of staff entitlements to trade and other payables	**–**	**–**	**(28.6)**	**(28.6)**
Additional provision	**76.6**	**11.0**	**0.9**	**88.5**
Utilisation of provision	**(70.7)**	**(9.3)**	**(4.8)**	**(84.8)**
Released to income statement	**–**	**(6.7)**	**(0.5)**	**(7.2)**
At 31 December 2022	**54.1**	**8.7**	**1.5**	**64.3**

Note:
1. In 2022, the Group has reclassified balances in respect of staff entitlements, as a result of applying IAS 19 'Employee Benefits' in place of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Staff entitlements of £25.6 million (2021: £28.6 million included in provisions) are included in accruals as at 31 December 2022 (see note 39). This adjustment has not been applied retrospectively as it is considered immaterial.

Of the above, £nil (2021: £nil) is due to be settled outside of 12 months.

Regulatory levies provisions include undiscounted balances held for MIB, FSCS and other insurance levies where the Group is charged in the following year. Restructuring includes a number of restructuring programmes within the Group, including office site closures and staff restructuring along with an impairment charge.

39. Trade and other payables, including insurance payables

	2022 £m	2021 £m
Accruals[1]	**132.3**	109.3
Trade creditors	**70.0**	121.6
Other taxes	**98.1**	99.1
Other creditors[2]	**92.2**	73.6
Due to reinsurers	**57.4**	45.4
Due to agents, brokers and intermediaries	**3.6**	4.0
Deferred income	**3.3**	3.2
Due to insurance companies	**0.9**	1.1
Total	**457.8**	457.3

Notes:
1. In 2022, the Group has reclassified balances in respect of staff entitlements, as a result of applying IAS 19 'Employee Benefits' in place of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. See footnote 1 to note 38 for additional detail.
2. Other creditors primarily consists of balances relating to insurance policies that have been accepted but where the Group is yet to go on risk, balances relating to unearned policyholder instalment interest income and other amounts due to policyholders.

40. Notes to the consolidated cash flow statement

	Notes	2022 £m	2021 £m
(Loss)/profit for the year		**(39.5)**	343.7
Adjustments for:			
Investment return	6	**(51.6)**	(146.3)
Instalment income		**(92.4)**	(97.3)
Finance costs	11	**20.4**	34.3
Defined benefit pension scheme – net interest charge		**(0.1)**	(3.1)
Equity-settled share-based payment charge		**8.2**	18.4
Tax (credit)/charge	12	**(5.6)**	102.3
Depreciation and amortisation charge		**115.0**	94.5
Impairment of intangible and ROU assets	17/19	**16.0**	2.6
Impairment provision movements on reinsurance contracts	22	**(5.1)**	(8.8)
Impairment on assets held for sale	30	**8.9**	9.4
Loss on disposal of property, plant and equipment and ROU assets		**1.5**	86.2
Operating cash flows before movements in working capital		**(24.3)**	435.9
Movements in working capital:			
Net increase/(decrease) in net insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		**49.3**	(21.1)
Net (increase)/decrease in insurance and other receivables		**(28.8)**	85.4
Net decrease in accrued income and other assets		**19.3**	0.9
Net decrease in trade and other payables, including insurance payables and provisions		**(31.6)**	(111.0)
Cash generated from operations		**(16.1)**	390.1
Taxes paid		**(44.5)**	(118.4)
Cash flow hedges		**0.3**	0.1
Net cash (used by)/generated from operating activities before investment of insurance assets		**(60.3)**	271.8
Interest received		**225.4**	234.6
Rental income received from investment property	6	**15.6**	14.5
Purchase of investment property	20	**(0.6)**	(0.1)
Proceeds on disposal of investment property	20	**–**	9.6
Proceeds on disposal/maturity of AFS debt securities		**1,696.2**	1,170.1
Proceeds from maturity of HTM debt securities		**–**	22.4
Advances made for commercial real estate loans		**(40.8)**	(44.3)
Repayments of infrastructure debt and commercial real estate loans		**57.2**	63.2
Purchase of AFS debt securities		**(1,075.9)**	(1,291.4)
Purchase of equity investments		**(7.7)**	(1.5)
Purchase of HTM debt securities		**(7.0)**	(9.9)
Advances made for other loans		**(1.9)**	–
Cash generated from investment of insurance assets		**860.5**	167.2

40. Notes to the consolidated cash flow statement continued

The table below details changes in liabilities arising from the Group's financing activities.

	Lease liabilities		Subordinated liabilities	
	2022 £m	2021 £m	**2022 £m**	2021 £m
At 1 January	**(84.2)**	(152.4)	**(513.6)**	(516.6)
Repayment of subordinated liabilities[1]	**–**	–	**250.0**	–
Interest paid on subordinated liabilities	**–**	–	**22.0**	33.5
Interest rate swap cash settlement	**–**	–	**–**	–
Lease repayments	**12.0**	105.1	**–**	–
Financing cash flows	**12.0**	105.1	**272.0**	33.5
Disposals of leases	**(6.3)**	(5.9)	**–**	–
Modifications of leases	**–**	(27.8)	**–**	–
Interest on lease liabilities	**(3.1)**	(3.2)	**–**	–
Amortisation of arrangement costs and discount on issue of subordinated liabilities	**–**	–	**(0.3)**	(0.6)
Amortisation of fair value hedging	**–**	–	**1.1**	3.6
Accrued interest expense on subordinated liabilities	**–**	–	**(17.8)**	(33.5)
Net accrued interest on interest rate swap	**–**	–	**–**	–
Fair value movement in interest rate swap	**–**	–	**–**	–
Non-cash changes	**(9.4)**	(36.9)	**(17.0)**	(30.5)
At 31 December	**(81.6)**	(84.2)	**(258.6)**	(513.6)

Note:
1. As described in note 34, the Group repaid in full the £250 million 9.25% subordinated Tier 2 notes due 2042 on 27 April 2022 when it had its first option to repay. The interest rate swap hedging these notes expired on the same date. Associated transaction costs were £0.1 million.

41. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2022 (2021: none).

42. Leases

Operating lease commitments where the Group is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants.

	2022 £m	2021 £m
Within one year	**13.8**	13.1
In the second to fifth year inclusive	**42.9**	38.4
After five years	**59.8**	70.0
Total[1,2]	**116.5**	121.5

Notes:
1. In the table above, the amounts disclosed for year ended 31 December 2022 exclude total future aggregate minimum lease payments receivable of £5.8 million which relate to leases to third-party tenants on properties the Group has classified as assets held for sale.
2. At year ended 31 December 2022: £114.2 million of the total operating lease commitments where the Group is the lessor relates to the lease of investment properties detailed in note 20 (2021: £114.4 million).

Other lease disclosures

At 31 December 2022 the Group had committed to property leases not yet commenced with total future cash outflows of £29.0 million.

The following table analyses the amounts that have been included in the income statement for leases.

	2022 £m	2021 £m
Depreciation of ROU assets	**9.9**	10.8
(Gain)/loss on disposal of leases	**(0.5)**	83.9
Interest on lease liabilities	**3.1**	3.2
Short-term leases[2]	**1.6**	0.8
Low-value leases[2]	**1.4**	0.8
Impairment on ROU assets	**–**	0.5
Income from subleasing ROU assets	**–**	(0.1)
Total	**15.5**	99.9

Notes:

1. Total cash outflows in respect of leases was £15.0 million (2021: £106.7 million).
2. At years ended 31 December 2022 and 31 December 2021, expenses relating to short-term leases and leases of low-value assets were not included in the measurement of lease liabilities as they were not considered significant.

43. Fair value

Fair value hierarchy

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

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

- Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.
- Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include AFS debt security assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments. Level 2 also includes quoted equity investments that the Group holds for which prices are available however, the market transactions upon which those prices are based are not considered to be regularly occurring.
- Level 3 fair value measurements used for investment properties, HTM debt securities, infrastructure debt, commercial real estate loans, unquoted equity investments and other loans are those derived from a valuation technique that includes inputs for the asset that are unobservable. HTM debt securities are private placed securities which do not trade on active markets, these are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium. Infrastructure debt and commercial real estate are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents. Unlisted equity investments are comprised of investments in private equity funds, which are valued at the proportion of the Group's holding of the net asset value reported by the investment vehicle. These are based on several unobservable inputs including market multiples and cash flow forecasts.

43. Fair value continued

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

At 31 December 2022	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property (note 20)	**278.5**	–	–	278.5	**278.5**
Derivative assets (note 26)	**31.3**	–	31.3	–	**31.3**
AFS debt securities (note 28)	**3,147.5**	511.2	2,636.3	–	**3,147.5**
Equity investments (note 28)	**13.6**	–	0.3	13.3	**13.6**
Other financial assets:					
HTM debt securities (note 28)	**98.2**	–	28.6	61.0	**89.6**
Infrastructure debt (note 28)	**238.2**	–	–	235.7	**235.7**
Commercial real estate loans (note 28)	**199.1**	–	–	198.1	**198.1**
Other loans (note 28)	**1.9**	–	–	1.9	**1.9**
Total	**4,008.3**	**511.2**	**2,696.5**	**788.5**	**3,996.2**
Liabilities held at fair value:					
Derivative liabilities (note 26)	**29.6**	–	29.6	–	**29.6**
Other financial liabilities:					
Subordinated liabilities (note 34)	**258.6**	–	204.9	–	**204.9**
Total	**288.2**	**–**	**234.5**	**–**	**234.5**

At 31 December 2021	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m
Assets held at fair value:					
Investment property (note 20)	317.0	–	–	317.0	317.0
Derivative assets (note 26)	35.9	–	35.9	–	35.9
AFS debt securities (note 28)	4,084.6	35.6	4,049.0	–	4,084.6
Equity investments (note 28)	6.2	–	–	6.2	6.2
Other financial assets:					
HTM debt securities (note 28)	91.2	–	24.3	69.1	93.4
Infrastructure debt (note 28)	250.8	–	–	257.8	257.8
Commercial real estate loans (note 28)	200.8	–	–	198.3	198.3
Total	4,986.5	35.6	4,109.2	848.4	4,993.2
Liabilities held at fair value:					
Derivative liabilities (note 26)	19.5	–	19.5	–	19.5
Other financial liabilities:					
Subordinated liabilities (note 34)	513.6	–	543.7	–	543.7
Total	533.1	–	563.2	–	563.2

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

- cash and cash equivalents;
- borrowings; and
- trade and other payables.

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and unquoted equity investments. Investment property is analysed in note 20 along with further details on the Group's valuation approach. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6.

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

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

At 31 December 2022	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	278.5[1]	Income capitalisation	Equivalent yield (note 20)	4.23% - 7.61% (average 5.62%)
			Estimated rental value per square foot	£6.50 - £32.92 (average £13.59)

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

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

	Investment property £m	Unquoted equity investments £m
At 1 January 2022	**317.0**	**6.2**
Additions[1]	**–**	**7.7**
(Reduction)/increase in fair value in the period (note 6 & 20)	**(39.1)**	**0.3**
Foreign exchange movement	**–**	**(0.9)**
Capitalised expenditure (note 20)	**0.6**	**–**
At 31 December 2022	**278.5**	**13.3**

Note:
1. Additions to unquoted equity investments are initially recognised at fair value plus directly related transaction costs.

44. Related parties

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

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the year ended 31 December 2022 (2021: £nil).

Compensation of key management

	2022 £m	2021 £m
Short-term employee benefits	**7.6**	11.9
Post-employment benefits	**0.2**	0.1
Share-based payments	**3.5**	7.2
Total	**11.3**	19.2

45. Post balance sheet events

On 26 January 2023, the Group announced that its principal underwriter, U K Insurance Limited, had entered into strategic reinsurance agreements, that together comprise a 3-year structured 10% quota share arrangement. The contracts incept with effect from 1 January 2023.

On 1 March 2023, the Group's principal underwriter, U K Insurance Limited, and service company, DL Insurance Services Limited, entered into arrangements relating to Motability Operations and the motor insurance needs of approximately 600,000 of its customers.

Parent Company Balance Sheet
As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Investment in subsidiary undertakings	2	**3,332.6**	3,322.9
Other receivables	3	**26.8**	342.5
Current tax assets	4	**6.8**	6.4
Derivative financial instruments	5	**0.1**	0.2
Financial investments	6	**–**	45.2
Cash and cash equivalents	7	**112.3**	204.6
Total assets		**3,478.6**	3,921.8
Equity			
Shareholders' equity		**2,695.7**	2,937.9
Tier 1 notes	9	**346.5**	346.5
Total equity		**3,042.2**	3,284.4
Liabilities			
Subordinated liabilities	10	**258.6**	512.4
Borrowings	11	**176.8**	123.9
Derivative financial instruments	5	**0.1**	0.2
Deferred tax liabilities	4	**0.9**	0.9
Total liabilities		**436.4**	637.4
Total equity and liabilities		**3,478.6**	3,921.8

The attached notes on pages 244 to 248 form an integral part of these separate financial statements.

The profit for the year net of tax was £126.2 million (2021: £421.9 million).

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2023.

They were signed on its behalf by:

NEIL MANSER
CHIEF FINANCIAL OFFICER
Direct Line Insurance Group plc
Registration No. 02280426

Parent Company Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 £m	2021 £m
Profit for the year attributable to the owners of the Company	**126.2**	421.9
Other comprehensive gain		
Items that may be reclassified subsequently to the income statement:		
Gain on fair value through other comprehensive income investments	**0.1**	–
Other comprehensive gain for the year net of tax	**0.1**	–
Total comprehensive income for the year attributable to the owners of the Company	**126.3**	421.9

Parent Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital (note 8) £m	Capital reserves (note 8) £m	Share-based payment reserve £m	Fair value through other comprehensive income revaluation reserve £m	Retained earnings £m	Shareholders equity £m	Tier 1 notes (note 9) £m	Total equity £m
Balance at 1 January 2021	148.9	1,451.1	7.2	(0.1)	1,329.5	2,936.6	346.5	3,283.1
Profit for the year	–	–	–	–	421.9	421.9	–	421.9
Total comprehensive income for the year	–	–	–	–	421.9	421.9	–	421.9
Dividends and appropriations paid (note 12)	–	–	–	–	(317.4)	(317.4)	–	(317.4)
Shares cancelled following buyback	(3.7)	3.7	–	–	(101.0)	(101.0)	–	(101.0)
Credit to equity for equity-settled share-based payments	–	–	17.0	–	–	17.0	–	17.0
Shares distributed by employee trusts	–	–	(19.2)	–	–	(19.2)	–	(19.2)
Total transactions with equity holders	(3.7)	3.7	(2.2)	–	(418.4)	(420.6)	–	(420.6)
Balance at 31 December 2021	145.2	1,454.8	5.0	(0.1)	1,333.0	2,937.9	346.5	3,284.4
Profit for the year	**–**	**–**	**–**	**–**	**126.2**	**126.2**	**–**	**126.2**
Other comprehensive income	**–**	**–**	**–**	**0.1**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the year	**–**	**–**	**–**	**0.1**	**126.2**	**126.3**	**–**	**126.3**
Dividends and appropriations paid (note 12)	**–**	**–**	**–**	**–**	**(314.5)**	**(314.5)**	**–**	**(314.5)**
Shares cancelled following buyback	**(2.1)**	**2.1**	**–**	**–**	**(50.1)**	**(50.1)**	**–**	**(50.1)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**9.5**	**–**	**–**	**9.5**	**–**	**9.5**
Shares distributed by employee trusts	**–**	**–**	**(13.4)**	**–**	**–**	**(13.4)**	**–**	**(13.4)**
Total transactions with equity holders	**(2.1)**	**2.1**	**(3.9)**	**–**	**(364.6)**	**(368.5)**	**–**	**(368.5)**
Balance at 31 December 2022	**143.1**	**1,456.9**	**1.1**	**–**	**1,094.6**	**2,695.7**	**346.5**	**3,042.2**

The attached notes on pages 244 to 248 form an integral part of these separate financial statements.

1. Accounting policies

1.1 Basis of preparation

Direct Line Insurance Group plc, registered in England and Wales (company number 02280426), is the ultimate parent company of the Group. The principal activity of the Company is managing its investments in subsidiaries, providing loans to those subsidiaries, raising funds for the Group and the receipt and payment of dividends.

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

The Company's financial statements are prepared on the historical cost basis except for financial investments and derivative financial instruments, which are measured at fair value.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The Company's financial statements are prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

The Company has taken advantage of the following FRS 101 disclosure exemptions:

- FRS 101.8 (d): the requirements of IFRS 7 'Financial Instruments: Disclosures' to make disclosures about financial instruments;
- FRS 101.8 (e): the disclosure requirements of IFRS 13 'Fair Value Measurement';
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 111 and 134 – 136 of IAS 'Presentation of Financial Statements' to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.

Adoption of new and revised standards

Full details of the new and revised standards adopted by the Company are set out in note 1 to the consolidated financial statements.

1.2 Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

1.3 Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost or fair value through other comprehensive income. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

Amortised cost

Assets which are held to collect contractual cash flows, and with contractual terms which give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are classified as financial assets held at amortised cost. The Company initially measures financial assets held at amortised cost at fair value plus transaction costs. They are subsequently measured using the effective interest method where applicable and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Fair value through other comprehensive income

Assets which are held both to collect contractual cash flows and to sell the financial asset, where the contractual terms of the asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income, unless designated as FVTPL. The Company's financial assets at fair value through other comprehensive income relate to corporate debt securities. Movements in the carrying amount are taken through other comprehensive income, except for gains or losses recognised in the income statement when the asset is derecognised, modified or impaired.

Impairment

At initial recognition of a financial asset measured at amortised cost or fair value through other comprehensive income, an expected credit loss assessment is conducted with an impairment loss booked if material. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the credit quality and history of the financial asset or group of financial assets, as well as existing market conditions and forward-looking expectations.

At each balance sheet date, the Company assesses on a forward-looking basis whether there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held at amortised cost or fair value through other comprehensive income is expected. The Company measures the expected loss as the difference between the carrying amount of the asset or group of assets, including the allowance for expected losses at initial recognition, and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

The Company applies the simplified impairment approach to trade receivables due from subsidiary undertakings.

Impairment losses, including the expected credit allowance, are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the expected impairment allowance reduces, and this can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. A financial asset is written off when there is no reasonable expectation of recovery.

2. Investment in subsidiary undertakings

	2022 £m	2021 £m
At 1 January	**3,322.9**	3,305.9
Additional investment in subsidiary undertakings	**9.7**	17.0
At 31 December	**3,332.6**	3,322.9

The subsidiary undertakings of the Company are set out in the table below. Their capital consists of Ordinary Shares which are unlisted. In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
Directly held by the Company:			
Direct Line Group Limited[1]	02811437	United Kingdom	Intermediate holding company
DL Insurance Services Limited[1]	03001989	United Kingdom	Management services
Finsure Premium Finance Limited[1]	01670887	United Kingdom	Non-trading company
Inter Group Insurance Services Limited[1]	02762848	United Kingdom	Dormant[6]
UK Assistance Accident Repair Centres Limited[1]	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	02857232	United Kingdom	Dormant[6]
U K Insurance Business Solutions Limited[1]	05196274	United Kingdom	Insurance intermediary services
U K Insurance Limited[2,3]	01179980	United Kingdom	General insurance
Indirectly held by the Company:			
10-15 Livery Street, Birmingham UK Limited[4]	JE109119	Jersey	Dissolved[7,8]
Brolly UK Technology Limited[1]	10134039	United Kingdom	Dormant[6]
Churchill Insurance Company Limited[1]	02258947	United Kingdom	General insurance
Direct Line Insurance Limited[1]	01810801	United Kingdom	Dormant[6]
DL Support Services India Private Limited[5]	See footnote 5	India	Support and operational services
DLG Legal Services Limited[2]	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	08911044	United Kingdom	Dormant[6]
Farmweb Limited[1]	03207393	United Kingdom	Dormant[6]
Green Flag Group Limited[2]	02622895	United Kingdom	Intermediate holding company
Green Flag Holdings Limited[1]	03577191	United Kingdom	Intermediate holding company
Green Flag Limited[2]	01003081	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited[1]	03315786	United Kingdom	Dormant[6]
National Breakdown Recovery Club Limited[1]	02479300	United Kingdom	Dormant[6]
Nationwide Breakdown Recovery Services Limited[1]	01316805	United Kingdom	Dormant[6]
The National Insurance and Guarantee Corporation Limited[1]	00042133	United Kingdom	Dormant[6]
UKI Life Assurance Services Limited[1]	03034263	United Kingdom	Dormant[6]

Notes:
1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited has a branch in the Republic of South Africa and a branch in the Republic of Ireland.
4. Registered office at: 22 Grenville Street, St Helier, JE4 8PX, Jersey.
5. Registered office at: ESC House, 155, 1st & 2nd Floor, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
6. These entities have not been audited, in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.
7. Under the Companies (Jersey) Law 1991, there is no requirement to file individual accounts and audit a private limited company.
8. 10-15 Livery Street, Birmingham UK Limited was dissolved on 29 December 2022.

2. Investment in subsidiary undertakings continued

At 31 December 2022, the carrying amount of the Company's net assets of £3,042.2 million (2021: £3,284.4 million) exceeded the Group's market capitalisation of £2,902.1 million (2021: £3,712.7 million). The Group has performed an impairment test in line with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairments were required to any of the Company's investments in its subsidiaries.

The recoverable amounts of each investment were based on the higher of the value-in-use test, using the strategic plan, and the fair value which was deemed to be equal to the subsidiaries' net asset values. For each investment in subsidiary the recoverable amount was greater than the carrying value of the cost of investment resulting in no impairment required for the year ended 31 December 2022 (2021: £nil).

3. Other receivables

	2022 £m	2021 £m
Loans to subsidiary undertakings[1]	**21.1**	337.1
Trade receivables due from subsidiary undertakings	**5.4**	5.4
Other debtors	**0.3**	–
Total	**26.8**	342.5
Current	**26.8**	92.5
Non-current	**–**	250.0
Total	**26.8**	342.5

Note:

1. For the year ended 31 December 2021, included in loans to subsidiary undertakings was a £250 million unsecured subordinated loan to U K Insurance Limited which was settled on 25 April 2022. All loans are neither past due nor impaired.

4. Current and deferred tax

	2022 £m	2021 £m
Per balance sheet:		
Current tax assets	**6.8**	6.4
Deferred tax liabilities	**(0.9)**	(0.9)

The deferred tax liability is in respect of provisions and other temporary differences.

5. Derivative financial instruments[1]

	Notional amount 2022 £m	Fair value 2022 £m	Notional amount 2021 £m	Fair value 2021 £m
Derivative assets				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**3.4**	**0.1**	14.1	0.2
Total	**3.4**	**0.1**	14.1	0.2
Derivative liabilities				
Designated as hedging instruments:				
Foreign exchange contracts (forwards)[2]	**3.4**	**0.1**	14.1	0.2
Total	**3.4**	**0.1**	14.1	0.2

Notes:

1. The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 43 of the consolidated financial statements.
2. The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

6. Financial investments

	2022 £m	2021 £m
Fair value through other comprehensive income debt securities[1]	**–**	45.2

Note:

1. At 31 December 2021, the fair value through other comprehensive income debt securities are corporate debt securities of £45.2 million classified as level 2 within the Group's fair value hierarchy which is set out in note 43 of the consolidated financial statements.

7. Cash and cash equivalents

	2022 £m	2021 £m
Short-term deposits with credit institutions[1]	**112.3**	204.6
Total	**112.3**	204.6

Note:
1. This represents money market funds.

8. Share capital, capital reserves and distributable reserves

Full details of the share capital and capital reserves of the Company are set out in notes 31 and 32 to the consolidated financial statements.
Of the Company's total equity, £1,094.6 million (2021: £1,333.0 million), being the total of its retained earnings less unrealised losses of £nil (2021: £0.1 million), is considered to be distributable reserves.

9. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 33 to the consolidated financial statements.

10. Subordinated liabilities

	2022 £m	2021 £m
£250 million 9.25% subordinated Tier 2 notes due 2042	**–**	254.1
£260 million 4.0% subordinated Tier 2 notes due 2032	**258.6**	258.3
Total	**258.6**	512.4

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

The Company has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated guaranteed dated notes at 31 December 2022 was £204.9 million (2021: £543.7 million).

£250 million 9.25% subordinated Tier 2 notes due 2042

The subordinated guaranteed dated notes with a nominal value of £500 million were issued on 27 April 2012 at a fixed rate of 9.25% with a redemption date of 27 April 2042. On 8 December 2017, the Company repurchased £250 million nominal value of subordinated guaranteed dated notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The remaining notes, with a nominal value of £250 million and accrued interest of £11.6 million, were redeemed in full on 27 April 2022 when the Group had its first option to repay. Associated transaction costs were £0.1 million.

£260 million 4.0% subordinated Tier 2 notes due 2032

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

11. Borrowings

	2022 £m	2021 £m
Loans from fellow subsidiaries within the Group[1]	**176.8**	123.9

Note:
1. Included in the above is a loan of £69.2 million (2021: £93.8 million) from UK Assistance Accident Repair Centres Limited. All loans from fellow Group subsidiaries are repayable by 31 December 2024.

12. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 14 to the consolidated financial statements.

13. Share-based payments

Full details of share-based compensation plans are provided in note 37 to the consolidated financial statements.

14. Risk management

The risks faced by the Company, arising from its investment in subsidiaries, are considered to be the same as those in the operations of the Group. Details of the key risks and the steps taken to manage them are disclosed in note 3 to the consolidated financial statements. The Company also holds, on behalf of its subsidiaries, designated hedging instruments which relate to foreign currency supplier payments.

15. Employees, directors and key management remuneration

The Company has no employees. The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 10 to the consolidated financial statements, the compensation for key management is set out in note 44 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest-paid Director are included in the Directors' Remuneration Report in the Governance section of the Annual Report and Accounts.

Shareholder Information

Financial calendar[1]

2023

Date	Event
13 Mar	Preliminary Results 2022 announcement
09 May	Annual General Meeting
02 August	Half-year report 2023
07 November	Trading update for the third quarter of 2023

Annual General Meeting

The 2023 AGM will be held at No 1 Minster Court, Mincing Lane, London, EC3R 7AA on Tuesday, 9 May 2023, starting at 11.00 am. All shareholders will receive a separate notice convening the AGM. This will explain the resolutions to be put to the meeting.

The Articles of Association of the Company and the letters of appointment of the Executive Directors, the Chair and the Non-Executive Directors are available for inspection at the Company's registered office and at the offices of Allen & Overy LLP.

Market

The Company has a premium listing on the UK Listing Authority's Official List. The Company's Ordinary Shares (EPIC: DLG) are admitted to trading on the London Stock Exchange.

Share ownership

Share capital

You can find details of the Company's share capital in note 31 to the consolidated financial statements.

Dividends

The Company pays its dividends in sterling to shareholders registered on its register of members at the relevant record date.

Shareholders can arrange to receive their cash dividend payments in a bank or building society account by completing a dividend mandate form. This is available from the Company's registrar, Computershare Investor Services Plc ("**Registrar**"), in the UK. You can find the Registrar's contact details on page 260. Alternatively, shareholders can access their shareholdings online and download a dividend mandate form from the Investor Centre. You can find details of this below.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan. This enables shareholders to use their cash dividends to buy the Company's Ordinary Shares in the market. You can find more details on the Company's website.

Shareholder enquiries

Shareholders with queries about anything relating to their shares can contact our Registrar.

Shareholders should notify the Registrar of any change in shareholding details, such as their address, as soon as possible.

Shareholders can access their current shareholding details online at www.investorcentre.co.uk/directline. Investor Centre is a free-to-use, secure, self-service website that enables shareholders to manage their holdings online. The website allows shareholders to:

- check their holdings;
- update their records, including address and direct credit details;
- access all their securities in one portfolio by setting up a personal account;
- vote online; and
- register to receive electronic shareholder communications.

To access information, the website requires shareholders to quote their shareholder reference number. Shareholders can find this number on their share certificates.

Corporate website

The Group's corporate website is www.directlinegroup.co.uk. It contains useful information for the Company's investors and shareholders. For example, it includes press releases, details of forthcoming events, essential shareholder information, a dividend history, a financial calendar, and details of the Company's AGM. You can also subscribe to email news alerts.

Shareholder warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

Note:
1. These dates are subject to change.