Aviva International Insurance Limited

Registered in England and Wales No. 21487

Annual Report and Financial Statements 2023

Contents

Directors and officer

Directors

R Aronson - Independent Non-Executive Director (Appointed 23 February 2023)
K Bateman - Independent Non-Executive Director (Appointed 1 February 2023)
M Belezina - Non-Executive Director (Appointed 28 June 2023)
J Buttigieg - Executive Director
R English - Executive Director (Resigned 23 October 2023)
P Needleman - Independent Non-Executive Director
O Thoresen - Independent Non-Executive Director
D Thorne - Executive Director (Appointed 19 December 2023)
N Williams - Senior Independent Non-Executive Director
D Wright - Independent Non-Executive Director

Officer – Company Secretary

Aviva Company Secretarial Services Limited
80 Fenchurch Street
London
EC3M 4AE

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Office

80 Fenchurch Street
London
EC3M 4AE

Please note that the Registered Office address, and that of the Company Secretary, changed on 19 March 2024 and 26 March 2024 respectively. Both were previously:

St Helen's
1 Undershaft
London
EC3P 3DQ

Company Number

Registered in England and Wales no. 21487

Other Information

Aviva International Insurance Limited ("the Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

The Company is a member of the Aviva plc group of companies ("the Group").

Strategic report

The directors present their Strategic report for the Company for the year ended 31 December 2023.

Review of the Company's business

Principal activities

The Company is a limited company, incorporated under the laws of England and Wales. The principal activity of the Company is to act as the onshore reinsurance vehicle for the Group.

The Company has quota share reinsurance arrangements with fellow Group subsidiaries as follows:

- Aviva Insurance Limited ("AIL") which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Life & Pensions UK Limited ("UK L&P") which transacts investment and long term insurance business, to reinsure 30% of the liabilities in its non-profit sub-fund ("NPSF"); and
- The seven companies comprising the general insurance business of Aviva Canada ("CGI"), to reinsure 50% of their insurance liabilities.

Significant events

The Company's financial results are affected by a number of external factors, including demographic trends, general economic and market conditions, government policy and legislation and exchange rate fluctuations. In addition, the Company's 2023 financial performance includes the impact of corporate actions taken aimed at achieving the Group's strategy either directly or within its cedants. The impact of these events on IFRS performance and Solvency II may differ due to their different measurement and recognition criteria.

Financial position and performance

The financial position of the Company at 31 December 2023 is shown in the statement of financial position on page 33, with the trading results shown in the income statement on page 31 and the statement of cash flows on page 34. Comparative numbers have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Insurance revenue earned was £5,186 million (*Restated 2022: £5,060 million*). Insurance revenue in 2022 includes £355 million from the amendment of the Company's reinsurance arrangements with CGI to increase the percentage of reinsurance of its insurance liabilities from 25% to 50%.

The profit after tax for the year was £755 million (*Restated 2022: £(82) million loss after tax*). The profit in 2023 is attributable to underlying profits generated by the Company's cedants in addition to favourable investment variances. The loss in 2022 is attributable to adverse investment variances driven by an increase in interest rate yields over the period, in part offset by underlying profits generated by the Company's cedants.

The Company paid dividends totalling £310 million to its parent company during the year (*2022: £270 million*).

The Company's net assets have increased by £445 million (*Restated 2022: decreased by £352 million*) in line with the profit after tax and dividend payments described in this section.

Section 172 (1) Statement

The directors report here on how they have discharged their duties under Section 172 (1) of the Companies Act 2006.

Section 172 (1) sets out a series of matters to which the directors must have regard in performing their duty to promote the success of the Company for the benefit of its shareholder, which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that the Company's obligations to its shareholder and its stakeholders are met and management drives the embedding of the desired culture throughout the organisation. The Board monitors adherence to the Company's policies and compliance with local corporate governance requirements and is committed to acting if the Company should fail to act in the manner expected of it.

The Board is also focused on the wider social context within which the business operates, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Culture

The Company's culture is shaped, in conjunction with the wider Aviva Group, by its clearly defined purpose - "with you today for a better tomorrow". As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. The Company looks to build relationships with all its stakeholders based on openness and transparency, valuing diversity and inclusivity in the workforce and beyond.

Key strategic decisions in 2023

The Company's core strategic purpose is to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities. For each matter that comes before the Board, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process. During 2023 the Board considered the following:

(i) *Final Dividend*

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2023.

(ii) *Interim Dividends*

During the year, the directors approved dividends of £310 million taking into account the current and future outlook for distributable reserves, capital surplus and liquidity, and the level of protection provided to cedants and their policyholders by the capital surplus of the Company.

Strategic report (continued)

(iii) Strategy

The directors reviewed and approved the strategic plan and determined the level of expected future dividends that were consistent with the need to maintain sufficient financial security for cedants and their policyholders.

(iv) Treaty Development

The Board continues to promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value.

The Company's Stakeholders

This section provides insight into how the Board engages with its stakeholders. The Board recognises that stakeholders have diverse interests and it is essential to understand what matters most to them and the likely impact of any key decisions.

The tables below set out the Board's approach to stakeholder engagement during 2023.

Our people

Our people's wellbeing and commitment to serving the Group's customers are the foundations for the Company's performance.

How we have engaged	Focus during the year
• The Company has no employees. The majority of staff engaged in the activities of the Company are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, and the Company is recharged with the cost of these staff. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them. • The Board always aims to provide an inclusive working environment where talent is developed, performance is rewarded, support is provided and differences are valued. • The Group's employees have the opportunity to share in the success of the business as shareholders through membership of the Group's global share plans. All employees are eligible for the Group's global share plans. • The Board met local members of staff during a visit to Aviva's office in York. • The Audit Committee reviewed reports on the Group's whistleblowing arrangements (the 'Speak Up' service).	• The Aviva Group is focused on attracting and retaining the best people in the industry. • The Board were given corporate culture updates with a focus on embedding diversity and inclusion. • The outcome of the Group's annual global staff engagement survey, Voice of Aviva, was used to assess employee comfort and confidence in the whistleblowing process (Speak Up). **Outcomes and actions during the year** • Launch of Workvivo, the Group's new internal colleague communication and engagement platform. • A range of events have been held by the Group for colleagues covering a variety of health and financial wellbeing matters.

Customers

Understanding what's important to the Group's customers is key to the Company's long-term success.

How we have engaged	Focus during the year
• The Company does not have any direct external customers, but it does have quota share reinsurance arrangements with several Group subsidiary insurance companies who themselves have external customers.	• The Company considers the impact of its actions on its cedants and their external customers when making decisions. **Outcomes and actions during the year** • The Company received updates on its cedants that included information on their interactions with external policyholders

Strategic report (continued)

<table>
<tr><th colspan="2">Shareholder

The shareholder is the owner of the Company.</th></tr>
<tr><td>How we have engaged
The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board.
Members of the Aviva plc board can attend the Company's Board meetings by invitation.
Any matters requiring escalation are escalated by the Board, Audit Committee and Risk Committee through their Chairs to its parent. No such escalations were made in 2023.</td><td>Focus during the year
The Company has continued to focus on supporting its shareholder through value appreciation and dividends.
Outcomes and actions during the year
On 28 June 2023, the Board approved the appointment of Marina Belezina as a Group Non-Executive Director to enhance the integration and alignment of strategy between the Group and the Company.
In 2023, Ms Blanc, CEO of Aviva plc, attended the Board's September meeting; Ms Blance, Chair of Aviva plc's Risk Committee, attended the Company's Risk Committee's December meeting; and Mr Culmer, Chair of Aviva plc, attended the Board's December meeting.</td></tr>
</table>

<table>
<tr><th colspan="2">Regulators

As an insurance company, the Company is subject to financial services regulation and approvals in the markets it operates in.</th></tr>
<tr><td>How we have engaged
The Company has maintained a constructive and open relationship with its regulators.
Board members and senior management have had regular meetings with the PRA.
Regulators engaged with the Group to discuss their objectives, priorities and concerns, and how they affect the Group's business.</td><td>Focus during the year
Continued focus on regulatory requirements with training provided to the Board on topics such as Consumer Duty and Solvency II Reform.
Outcomes and actions during the year
Regulatory priorities and actions were regularly discussed at Board, Audit and Risk Committee meetings.
The Company routinely provided copies of Board, Audit Committee and Risk Committee papers to the PRA.</td></tr>
</table>

<table>
<tr><th colspan="2">Communities

The Company recognises the importance of contributing to its communities through volunteering, community investment, and long term partnerships</th></tr>
<tr><td>How we have engaged
The Group has supported the communities in which the Company operates, through investment in business and infrastructure, paying tax revenues and community support activity.</td><td>Focus during the year
Sustainability and inclusive behaviours training was provided for the Board.
Outcomes and actions during the year
Employees across the Group were offered the opportunity to volunteer their time to support charities and organisations.
During the year, the Group provided £2.7 million funding to Citizens Advice and £0.75 million to the Money Advice Trust to help build their capacity to tackle the cost of living crisis. This is part of an overall commitment of £7 million to Citizens Advice and £2 million to Money Advice Trust (the majority of which was distributed in 2022).
The Aviva Foundation committed just under £2 million funding to organisations delivering public benefit focused on financial resilience.</td></tr>
</table>

Strategic report (continued)

Suppliers	
The Company and its cedants operate in conjunction with a wide range of suppliers to meet its strategic objectives.	
How we have engaged	**Focus during the year**
• The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. The Company's material suppliers are internal to the Aviva Group. • The Board delegates engagement with suppliers and oversight to senior management. • All supplier related activity is managed in line with the Group's procurement and outsourcing business standard. This ensures that supplier risk is managed appropriately in relation to customer outcomes, data security, corporate responsibility, and financial, operational and contractual issues. • The Board, through reporting from the Audit Committee and Risk Committee, was kept updated on the development of any key supplier risk.	• Understanding and highlighting risk, and maintaining oversight across the Company's supply chain. • The Board received periodic updates on Group-wide cyber risk and control environment including the threat posed by the risk of ransomware attacks on both the Group and its material third party suppliers. **Outcomes and actions during the year** • Updates on the Company's most important suppliers are presented to the Board, as part of the Board's continuing programme of supplier oversight. • To ensure continued efforts to strengthen controls, the Group's Procurement & Outsourcing Business Standard was refreshed for 2023 and adopted by the Company. • The Board confirmed its support for the Group's Modern Slavery Act Statement which covered both the Group and its supply chain. • The Aviva Group held its first Net Zero Supplier Summit which included speakers from Microsoft, Paragon and Aviva Investors. • In the UK, the Company's ultimate parent, Aviva plc, is a signatory to the Prompt Payment Code which sets standards for payment practices for organisations and their suppliers.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2023 Annual Report and Accounts. The Company works with the Group to support the implementation of these strategies.

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

The Company aims to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities. The Company continues to explore opportunities to provide further capital benefits to the Group.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 25 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- Market risk - the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices;
- Credit risk - the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements;
- Life insurance risk - including mortality risk, morbidity risk, longevity risk, persistency risk, expense risk and policyholder behaviour risk around take-up of insurance guarantees and options;
- General insurance risk - including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.

Strategic report (continued)

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

- Capital surplus
- Profit/(loss) for the year before tax

A summary of the KPIs is set out below:

Measure	2023 £ million	2022 £ million
Capital Metrics		
Capital surplus[1]	**2,170**	1,949
Financial Performance Metrics		
Profit/(loss) for the year before tax[2]	**990**	(113)

1. Capital metrics are taken from the Aviva plc single Group Solvency and Financial Condition Report ("SFCR") for the year ended 31 December 2023 which is publicly available.
2. 2022 is restated following the adoption of IFRS17 Insurance Contracts

The year on year movement in profit/(loss) for the year is discussed in the Financial position and performance section of this report.

By order of the Board on 4 April 2024

Rhona Sim

For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2023.

Directors

The names of the directors of the Company who have served during the year and up to the date of signing the financial statements are shown on page 3.

Details of Board appointments and resignations during the year and since the year end are shown below:

- K Bateman was appointed as a non-executive director on 1 February 2023
- R Aronson was appointed as a non-executive director on 23 February 2023
- M Belezina was appointed as a non-executive director on 28 June 2023
- R English resigned as a director of the Company on 23 October 2023
- D Thorne was appointed as a director on 19 December 2023

Company Secretary

The name of the current company secretary of the Company is shown on page 3.

Dividends

Interim ordinary dividends of £310 million on the Company's ordinary shares were declared and settled during 2023 (*2022: £270 million*). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2023.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's capital structure (note 24); management of its risks including market, credit and liquidity risk (note 25); and derivative financial instruments (note 26).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully. The Aviva plc Directors' Report describes measures taken to obtain comfort over the viability of the Group's activities, including activities undertaken by the Company.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Important events since the financial year end

There have been no significant post balance sheet events subsequent to 31 December 2023.

Future outlook

Likely future developments in the business of the Company are discussed within the Strategic report starting on page 4.

Stakeholder engagement

The Company's statements summarising employee engagement, and engagement with suppliers, customers and other stakeholders are included in the Strategic report starting on page 5.

Statement of Corporate Governance Arrangements

For the year ended 31 December 2023, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"). We set out below how the Principles have been applied during 2023.

Principle 1 - Purpose and leadership

The Company is part of the Aviva Group. The Group's purpose is to be "with you today for a better tomorrow" to protect the things that matter most to the Group's customers. To live up to that purpose, the Group has a vision to be 'the leading UK provider and go-to customer brand for all insurance, wealth and retirement solutions, with strong businesses in Ireland and Canada' and has a clear strategy and plan to achieve this vision:

- **Customer:** Powering up the Aviva brand, building engaging customer experience, and leading with customer-centric innovation
- **Growth:** Targeted growth capitalising on the structural opportunities across Insurance, Wealth, Retirement Solutions & Bulk Purchase Annuities
- **Efficiency:** Simplifying and transforming our cost base, and working towards top quartile efficiency for all businesses
- **Sustainability:** Delivering on the Group's market leading commitments across Climate Champion, Stronger Communities and Sustainable Business

The delivery of the Company's strategy and plan is guided by the Group's values:

- Care
- Commitment
- Community
- Confidence

Directors' report (continued)

The Board has made a number of strategic decisions through the year which are aligned to its purpose and these are detailed in the Strategic report.

The Board monitors the culture of the Company, which is aligned to that of its ultimate shareholder Aviva plc, and raises any concerns during meetings. The Board is able to express its views on the culture of the organisation through the Board Effectiveness Reviews. Culture information has been added to the Board's annual planner to ensure the Board has the opportunity to review culture metrics and that employees have the right values, attitudes and behaviours and are focussed on doing the right thing for the Group's customers. The Company complies with the Senior Managers' Certification Regime which further strengthens the drive for individual accountability. Employee engagement is sought through the Voice of Aviva employee surveys, the output of which is reviewed by the Board and an action plan put in place to address areas identified by employees which may require further focus.

The Board is responsible for promoting the long-term success of the Company for the benefit of its shareholder, taking into account other stakeholders as defined by Section 172 of the Companies Act 2006 and the Articles of Association and including but not limited to: setting the Company's strategic aims; monitoring performance of the Company and management against those aims; setting the Company's risk appetites and monitoring the operation of prudent and effective controls and monitoring compliance with corporate governance principles.

Principle 2 - Board Composition

The Company's Board has an Independent Non-Executive Chair and a separate Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making across the Company is effectively maintained. The directors have equal voting rights when making decisions, except the Chair, who has a casting vote. All directors have access to the advice and services of the Company Secretary.

The Board has a skills matrix in place to ensure the composition of the Board contains the appropriate combination of skills, backgrounds, experience and knowledge to understand and guide the business. The skills matrix is a key tool in any Board recruitment process to ensure the most suitable candidates are put forward for appointment to fill any gaps identified and to maintain a focus on succession planning to ensure the composition of the Board remains appropriate.

The Board is comprised of Non-Executive directors, the majority of whom are Independent Non-Executive directors, and Executive directors. As part of the Board's ongoing succession planning two new Independent Non-Executive directors were appointed in February 2023 and a further Non-Executive director was appointed in June 2023. An existing Independent Non-Executive director was appointed as Senior Independent Non-Executive director in August 2023. The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote the success of the Company for its shareholder and in a way that is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice.

An independent assessment of the performance and effectiveness of the Board and its Committees was undertaken during the year. The assessment was conducted by an external third party and the results were presented to, and discussed by, the Board at its meeting on 13 December 2023. The report concluded that the Board has many strengths and noted that the assessors had struggled to identify any significant areas for improvement. A number of evolutionary points were suggested for future consideration and the Board intends to review these in more detail during 2024.

Principle 3 - Director Responsibilities

The Company operates in accordance with the Aviva Governance Framework, as approved by Aviva plc. The Aviva Governance Framework articulates the interrelation between its purpose, culture, values, its reporting and escalation structures and their alignment with legal and regulatory duties and its risk management framework. The core elements are the legal and regulatory flow of accountability and decision-making and the Company's frameworks, policies and standards and the checks and balances through the operation of the Company's 2nd and 3rd lines of defence which ensure effective Board oversight.

Within the Aviva Group, accountability is formally delegated by the Board to the CEO and by the CEO to their direct reports. The CEO delegations are referenced in the Board's Terms of Reference. Accountability rests with these individuals and the Board. These accountabilities are aligned with the Senior Managers' Certification Regime ("SMCR") responsibilities. The roles and responsibilities are clearly documented in the Management Responsibility Maps which form part of the Governance Framework and which are submitted to the PRA and FCA on a quarterly basis. The Company must also adhere to the Subsidiary Governance Principles which are a set of internal governance principles.

The Board held seven meetings in 2023, plus an additional day of strategic planning. The Board's key areas of focus in 2023 were overseeing the transition to IFRS 17 which was monitored by the Board's Audit Committee, monitoring the implementation and operation of treaties, business performance updates (financial and capital), updates from cedant businesses, governance, regulatory matters and future strategic objectives linked to the Company's strategy.

The Board has established an Audit Committee and a Risk Committee. The Terms of Reference for these committees are aligned to those of Aviva plc and are approved annually by the Board. The effectiveness of these committees was assessed as part of the independent assessment and both Committees were reported to be focused and running well. The assessment results have been discussed and the points for consideration that were noted in the report will be reviewed in more detail during 2024.

The Audit Committee is responsible for reviewing the effectiveness of the Company's systems and controls and receives regular updates on the work of the internal audit function and from the external auditors. The Company also receives reports from the CFO at each Audit Committee meeting.

The Risk Committee is responsible for oversight of risk, reviewing the Company's risk appetites and risk profile, reviewing the effectiveness of the Company's risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory activities, as appropriate. The Company also receives reports from the CRO at each Risk Committee meeting.

Principle 4 - Opportunity and Risk

The role of the Board is to promote the long-term sustainable success of the Company, generating value for its shareholder within a framework of prudent and effective controls, which enable risks to be assessed and managed.

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite, risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities, and the processes the Company uses to identify, measure, manage, monitor and report risks, including the use of risk models and stress and scenario testing.

The Company's position against its risk appetites and tolerances is monitored and reported to the Board on a regular basis.

Directors' report (continued)

Principle 5 - Remuneration

Under the Aviva Group Reward Governance Framework, the Company's remuneration policy operates in accordance with the Remuneration Policy as approved by the Aviva plc Remuneration Committee, which applies to all employees in entities within the Aviva Group. Independent Non-Executive director fees are also set by Aviva plc and reviewed annually. Details of directors' remuneration is included on page 40.

The Aviva Group reports on the pay ratio of the Group CEO to UK employees, and details of this can be found in the Directors' Remuneration Report in the Aviva plc Annual Report and Accounts which is available at www.aviva.com/investors/reports. Aviva plc also reports on the gender pay gap, and on the steps the Group is taking in relation to this which can be found at www.aviva.com/about-us/uk-pay-gap-report/.

The Board held a private session on 13 December 2023 to discuss the performance and conduct of key individuals of the Company's management and provided input into their 2023 remuneration reviews.

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by Aviva Employment Services Limited, a fellow subsidiary undertaking of Aviva plc. As part of the Aviva Group, these staff enjoy the comprehensive flexible benefit offering including the Aviva staff pension scheme and Aviva's broader Wellbeing offering which aims to promote health and wellbeing among Aviva colleagues.

Principle 6 – Stakeholders

Details about Stakeholders can be found in the Section 172 (1) Statement in the Strategic report.

Political donations

The Company did not make any political donations during the year *(2022: £nil)*.

Supplier payment policy

The directors are responsible for ensuring that the Company is compliant with the Prompt Payment of Accounts Act 1997, as amended by the European Communities (Late Payment in Commercial Transactions) Regulations 2002. It is the policy of the Company to pay for goods and services on presentation of an invoice by the supplier. Statements from suppliers showing amounts outstanding in excess of 30 days are immediately investigated and resolved as soon as possible.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in note 25 on risk management.

Employees

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by Aviva Employment Services Limited ("AES"), a subsidiary undertaking of Aviva plc. Disclosures relating to employees may be found in the annual report and financial statements of AES. The Company is recharged with the costs of the staff provided by AES.

Disclosure of information to the Independent Auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Independent Auditors, PricewaterhouseCoopers LLP ("PwC"), is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PwC is aware of that information.

Independent auditors

In 2021 a competitive tender process was completed by the Group to consider selection of the Group's preferred independent auditor. The Company were participants in the tender process that was overseen by the Group's Audit Committee. The selection of Ernst & Young LLP ("EY") as auditor from the year ending 31 December 2024 was approved by the Aviva plc Board. Subject to their appointment by Aviva Plc's shareholders at the 2024 Annual General Meeting and appointment by the Company, Ernst & Young will undertake the audit for the financial year ending 31 December 2024 and PwC will resign as auditor. The Audit Committee is monitoring this transition with PwC the appointed independent auditor for the financial year ending 31 December 2023.

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make reasonable and prudent judgements and accounting estimates;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board on 4 April 2024

Kirsna Sim

For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of Aviva International Insurance Limited

Opinion

In our opinion, Aviva International Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2023; the Income statement, the Statement of cash flows and the Statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 8 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

In addition to forming this opinion, in this report we have also provided information on how we approached the audit, how it has changed from the previous year and details of the significant discussions that we had with the Audit Committee.

Overview

Audit scope

- The Company has reinsurance arrangements with Aviva Life and Pensions UK Limited ("UK L&P"), Aviva Insurance Limited ("AIL") and Aviva Insurance Company of Canada, Aviva General Insurance Company, Traders General Insurance Company, Scottish & York Insurance Co. Limited, Elite Insurance Company, S&Y Insurance Company and Pilot Insurance Company (together "CGI"). The Company's financial reporting includes transactions and balances derived from financial information from these companies, and we have made use of those companies' auditors to provide evidence over these transactions and balances.
- Based on the output of our risk assessment, full scope audit procedures were performed over UK L&P and AIL, which have the most significant impacts on the financial statements of the Company.
- For CGI, we identified specific account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company and scoped our audit to include detailed testing of those account balances.

Key audit matters

- Adoption of IFRS 17 and restatement of comparatives
- Valuation of life insurance contract liabilities
- Annuitant mortality assumptions
- Credit default assumptions for illiquid assets (commercial mortgages, equity release mortgages) and corporate bonds
- Expense assumptions
- Valuation of the life insurance risk adjustment
- Valuation of the life insurance contractual service margin ("CSM")
- Valuation of non-life insurance contract liabilities
- Valuation of hard to value investments

Materiality

- Overall materiality: £182,000,000 based on 0.25% of total assets plus funds withheld.
- Performance materiality: £136,000,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Adoption of IFRS 17 and restatement of comparatives, Valuation of the life insurance risk adjustment and Valuation of the life insurance CSM are new key audit matters this year. The key audit matters "Valuation of life insurance contract liabilities" and the "Valuation of non-life insurance contract liabilities" have been updated this year to reflect the impacts from the adoption of IFRS 17. This new standard changes the way in which life and non-life insurance contract liabilities are measured, introduces new concepts and language, and changes a range of judgements that insurers must make. Disclosure of the impact of adopting IFRS 17, which was a key audit matter last year, is no longer included because of this was a risk relevant to a specific disclosure made in the prior year financial statements. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	**How our audit addressed the key audit matter**
Adoption of IFRS 17 and restatement of comparatives *Refer to accounting policy A and note 1*	
IFRS 17 became effective for periods beginning on or after 1 January 2023, replacing International Financial Reporting Standard 4, 'Insurance Contracts'. As a result, the company has adopted IFRS 17 in these financial statements. The transition to IFRS 17 has introduced new financial statement line items and disclosures, requiring significant changes to the measurement of transactions and balances in the financial statements, including new areas of judgement and estimation. New systems, data flows, interfaces, processes, and models have been developed and introduced, giving rise to increased risks of material misstatement. International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8") requires that when the impact of adopting a new accounting standard would be material to the financial statement comparatives, these comparatives should be restated. As a result, the 2022 opening balance sheet and the 2022 comparatives have been restated. In particular, we consider the key risks in relation to the adoption of IFRS 17 and restatement of comparatives to be as follows: • The determination of the transition approach adopted for each group of insurance contracts; • The judgments involved in the determination of the measurement model to apply under the standard, in particular, management's use of the Premium Allocation Approach ('PAA') measurement model for groups of contracts that are not automatically eligible; • The methodology and assumptions in respect of determining the risk adjustment; • The methodology applied to the amortisation of the CSM for annuities where the fully retrospective approach is being applied; • The methodology used by management to determine discount rates, in particular those inputs that most materially impact the calculations, including the calibration of the credit risk premium for unexpected defaults for each asset class, based on an appropriate reference portfolio of assets, used to derive the discount rate applied to the initial measurement of annuities along with the use of an adjustment made to liabilities where appropriate assets are yet to be sourced for recent contracts; • The implementation of new models to produce the IFRS 17 results, which include the CSM calculation engine; • The new data flow and interfaces arising from the implementation of IFRS 17, from new systems; and • The appropriateness of methodologies, assumptions and significant judgements applied in the calculation of relevant balances.	In performing our audit work over the transition to IFRS 17, and restatement of comparative financial statements (including the opening balance sheet), the procedures we performed included the following: a. Tested the design and operating effectiveness of controls in place; b. Assessed the appropriateness of the transition approach adopted for each group of insurance contracts; c. Assessed whether the judgements, methodology and assumptions applied by management in determining their accounting policies are in accordance with IFRS 17; d. Assessed the appropriateness of the judgements and supporting estimates used to determine use of the Premium Allocation Approach (PAA) measurement model; e. Applied industry knowledge and comparing the methodology, models and assumptions used in determining the risk adjustment, CSM and IFRS 17 best estimate liabilities against expected market practice. This included consideration of the reasonableness of methodologies and assumptions and the appropriateness of any judgements applied, including whether or not there was any indication of management bias; f. Assessed the appropriateness of the methodology to derive the credit risk premium applied for unexpected defaults within the discount rate for annuities, considering the data used to calibrate the assumption and any judgements applied in arriving at the final assumption, and by comparing the assumption to other insurers of a similar nature; g. Assessed the appropriateness of the methodology used to determine the reference portfolio of assets used to derive the discount rate for the initial measurement of annuities and the adjustment made to liabilities where appropriate assets are yet to be sourced for recent contracts. Tested whether the adjustments made, based on new business written in prior periods, were appropriate; h. Performed validation of certain new models through (i) evaluating the testing performed by management to assess its appropriateness and (ii) where necessary, performing independent validation testing using sample scenarios and comparing the output between our calculations and those produced by the models/ relevant IT applications; i. Tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the 2022 comparatives; j. Evaluated output controls, such as the analysis of change in the CSM, to assess the reasonableness of movements between periods and the commentary provided over these movements by management; and k. Performed testing over key data flows within the IFRS 17 business processes. Based on the work performed and the evidence obtained, we consider the approaches adopted and resulting measurements and disclosures in the financial statements to be appropriate.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

Valuation of life insurance contract liabilities
Refer to accounting policy I 'Insurance contract balances' and Note 17 - Insurance contracts

The valuation of the provision for life insurance liabilities involves complex and subjective judgements about future events, both internal and external to the business. Small changes to these assumptions can result in material impacts to the valuation of the fulfilment cash flows, CSM and risk adjustment.

Our assessment of the related audit risks are focused in the following three areas:

1. The significant assumptions that involve high levels of judgement in determining the best estimate liabilities (as detailed below);
2. The methodology and judgement involved in determining the valuation of the risk adjustment; and
3. The methodology and assumptions used in determining the valuation of the life CSM.

As part of our consideration of the entire set of assumptions used in determining the best estimate liabilities, we focused particularly on the following three assumptions given the level of judgement involved in their determination, and the sensitivity of the valuation of the fulfilment cash flows to them:

a. the mortality assumptions used in the valuation of annuity business insurance liabilities ("annuitant mortality");
b. credit default assumptions for illiquid assets (commercial mortgages, equity release mortgages) and corporate bonds; and
c. expense assumptions.

We provide more detailed consideration of each of these assumptions, the valuation of the risk adjustment, and the valuation of the life CSM below.

The work to address the valuation of the life insurance liabilities included the following procedures:

a. Understood and evaluated the process and the design and implementation of controls in place to determine the life insurance liabilities;
b. Tested the design and operating effectiveness of controls in place over life insurance liabilities, including those covering the approval of assumptions, and the completeness and accuracy of the data used;
c. Using our actuarial specialist team members, applied industry knowledge and experience and compared the methodology, models and assumptions used against recognised actuarial practice. This included consideration of the reasonableness of assumptions against actual historical experience, and the appropriateness of any judgements applied, including if there was any indication of management bias;
d. Tested the key judgements over the preparation of the life insurance liabilities, including manual calculation of components focussing on the consistency in treatment and methodology year-on-year and with reference to recognised actuarial practice;
e. Used the results of an independent PwC annual benchmarking survey of assumptions to further challenge the assumption setting process by comparing certain assumptions used relative to the Group's industry peers; and
f. Assessed the disclosures in the financial statements.

As detailed on the left, we have focused in particular on three assumptions, given the level of judgement and their significance.

Further details on the specific procedures performed over each of the identified key assumptions are included in the below sections of our Key Audit Matters. Based on the work performed and the evidence obtained, we consider the assumptions used for valuation of life insurance contract liabilities to be appropriate.

Annuitant mortality assumptions
Refer to accounting policy I 'Insurance contract balances' and Note 17 - Insurance Contracts

Annuitant mortality assumptions used to value the life insurance best estimate liabilities for the UK Life insurance business require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management's views on the future rate of mortality improvements, and external factors arising from developments in the annuity market. Covid-19 has caused additional challenges in estimating long term mortality assumptions due to the uncertainty in more recent data.

There are two main components to the annuitant mortality assumptions:

a. Mortality base assumption: this component is typically less subjective as it is derived using the external Continuous Mortality Investigation ("CMI") tables for individual annuities and Club Vita 3 ("CV3") tables for Bulk Purchase Annuities "'BPA", adjusted for internal experience. However, judgement is required in choosing the appropriate table and fitting Aviva's own experience to this table. In setting this assumption management adopted the latest CMI model (CMI 2022), opting to exclude the 2022 experience from the analysis and allow for a flat increase to the base table as well as including an anti-selection adjustment for certain pension annuities; and
b. Rate of mortality improvements: this component is more subjective given the uncertainty over how life expectancy will change in the future and the lack of available data to support judgements made in respect of this. In setting this assumption, management has adopted the latest CMI model (CMI 2022) and dataset and updated the calibration of key parameters within the model.

In respect of the annuitant mortality assumptions, we performed the following on the judgements applied:

a. Tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included evaluating management's approach to the adoption of the latest CMI model (CMI 2022) particularly around the appropriateness of excluding the 2022 experience from the analysis and including a flat increase to base table;
a. Assessed the reasonableness of the base mortality assumptions. This included assessing any adjustments made by management in respect of experience impacted by the COVID-19 pandemic, and the choice of anti-selection assumptions;
a. Comparing annuitant mortality assumptions selected by management against those that have been used by others in the market, based on our expert actuarial experience; and
b. Considering the reasonableness of mortality improvement assumptions, including those unchanged, such as the socio-economic group adjustments, following the move to the latest CMI model. We performed this by assessing the continued appropriateness of these elements of the mortality improvement basis against the impact arising from the change in the CMI model.

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

Credit default assumptions for illiquid assets (commercial mortgages, equity release mortgages) and corporate bonds
Refer to accounting policy (I) 'Insurance contract balances' and Note 17 – Insurance contracts

Life insurance best estimate liabilities are valued by discounting expected future cash flows at an interest rate based on the yield of assets backing the liabilities, allowing for a deduction for the credit risk associated with holding these assets. UK Life has substantial holdings in asset classes with significant credit risk. For illiquid assets, the underlying asset valuation requires a number of different assumptions. Internally developed models are then used to project the associated cash flows for the assets, using these assumptions, to calculate the asset value and associated credit risk. There is a heightened risk that corporate bonds credit default assumptions may not be appropriate given the heightened economic uncertainty and high inflation environment observed in the current year. We have consequently included this asset class within this key audit matter. The calculated credit risk for illiquid assets and corporate bonds are converted into credit default assumptions for each asset type. These assumptions are then uplifted by a risk allowance to allow for unexpected credit losses and used, alongside credit default assumptions for other assets, in the calculation of the valuation interest rate used to value life insurance liabilities.	In respect of the credit default assumptions for illiquid assets, we performed the following: a. Tested the methodology and the credit risk pricing models used by management to derive the assumptions for commercial and equity release mortgages. This included consideration of the relevant rules and actuarial guidance, such as the adoption of an appropriate risk allowance, and by applying our industry knowledge and experience; and b. Validated the significant assumptions used by management by ensuring consistency with the assumptions used for the valuation of the illiquid assets and by considering any additional judgements applied, market observable data (to the extent available and relevant) and our experience of market practice. In respect of the credit default assumptions for corporate bonds, we performed the following: a. Tested the appropriateness of the methodology used by management. This included consideration of the relevant rules and actuarial guidance, such as the adoption of an appropriate risk allowance, and by applying our industry knowledge and experience; and b. Assessed the reasonableness of the significant assumptions used in the calculation of the credit default assumption, with a focus on recent market volatility. Based on the work performed and the evidence obtained, we consider the assumptions used for credit default risk on commercial mortgages, equity release mortgages and corporate bonds to be appropriate.

Expense assumptions
Refer to accounting policy I 'Insurance contract balances' and Note 17 – Insurance contracts

Future maintenance expenses and expense inflation assumptions are used in the measurement of the life insurance best estimate liabilities. The assumptions reflect the expected future expenses that will be required to maintain the inforce policies at the balance sheet date. The assumptions used require significant judgement. In the prior period, and over the course of the year ended 31 December 2023, inflation has been significantly higher than historical rates. As a result, there remains significant uncertainty around future inflation and how inflation will vary across the economy. This increases the materiality and risk associated with judgements applied in the calculation of expense inflation.	In respect of the expense assumptions, we performed the following: a. Tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included testing the split of expenses between acquisition and maintenance expenses, and agreeing the split of attributable and non-attributable costs under IFRS 17, by agreeing a sample to supporting evidence; b. Tested that the assumptions appropriately reflect the expected future maintenance expenses for policies in force at the balance sheet date, which includes consideration of the allowance for project costs and planned controlled cost reduction; an c. Tested the actuarial reserving models to ensure that the expense assumptions continue to be applied appropriately within the models, and assessed the appropriateness of new and existing maintenance expense manual provisions. In respect of the inflation assumption, we considered the reasonableness of the expense inflation assumption with respect to the market view of inflation as at 31 December 2023. This included the reasonableness of any adjustments made to market inflation to set the expense inflation assumption. Based on the work performed and the evidence obtained, we consider the expense assumptions to be appropriate.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

Valuation of the life insurance risk adjustment
Refer to Accounting policy I 'Insurance contract balances' and Note 17 – Insurance contracts

The risk adjustment represents the compensation that the group requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The method by which management determines the valuation of the risk adjustment requires them to carry out a number of calculations that involve a significant degree of judgement. These judgements can be highly subjective, complex and sensitive to change, and as a result we have identified this as a significant risk. As a result of our risk assessment procedures, we identified the following key risks: • The appropriateness and application of judgements applied in the execution of management's determined methodology given that the standard does not prescribe the calculation of risk adjustment and a variety of approaches can be taken to satisfy the standard's requirements; and • The appropriateness of the confidence level given the judgement involved in determining the confidence level to disclose, for example whether sufficiently accurate modelling is available to disclosing a point estimate versus a range or whether to determine a confidence level over a 1-year time horizon vs a "to-ultimate" time horizon.	In respect of the Risk Adjustment, we have performed the following: • Tested the application of the methodology used to derive the risk adjustment - focussing on any key judgements applied when updating the calibration result; • Compared management's approach to the wider market where applicable, particularly where adjustments are applied to the calibration to reflect external events and by applying our industry knowledge and experience; and • Evaluated results of management's analysis of the change in the risk adjustment results to assess the reasonableness of movements between periods and the commentary provided over these movements by management. Based on the work performed and the evidence obtained, we consider the life insurance risk adjustment to be appropriate.

Valuation of the life insurance contractual service margin ("CSM")
Refer to accounting policy I 'Insurance contract balances' and Note 17 – Insurance contracts - (17.3) Contractual Service Margin.

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts measured under the General Measurement Model ("GMM") and Variable Fee Approach ("VFA"). It represents the unearned profit that the Group will recognise as it provides insurance contract services in the future. The CSM engine is driven by complex calculations and sensitive assumptions, which in combination with manual adjustments increase the risk of calculation error. In particular the key areas in which we have identified risks relate to: • The implementation of management's methodology and the application of judgements in the CSM calculation engine; and • The appropriateness of any manual adjustments made by management to the output of their calculations.	We performed the following procedures to address the significant audit risk in respect of the CSM: • Understood and evaluated the process and the design and implementation of controls in place. This included testing the design and operating effectiveness of the relevant controls in place, and the completeness and accuracy of data used; • Tested the accuracy of the CSM calculation engine and the application of management's judgements by comparing a sample of outputs against those produced by an independent CSM model; • Reviewed management's testing over the accuracy of the one-off tools and spreadsheets used for the calculation of the CSM as at 31 December 2023 against the CSM calculation engine • Tested manual adjustments made by management; and • Evaluated output controls, such as the analysis of change in the CSM through reperformance and independent testing, to assess the reasonableness of movements between periods and the commentary provided over these movements by management. Based on the work performed and the evidence obtained, we consider the life risk and life participating CSM to be appropriate.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

Valuation of non-life insurance contract liabilities
Refer to accounting policy I 'Insurance contract balances' and Note 17 - Insurance contracts

Insurance contract liabilities and assets are highly uncertain and require considerable judgement and interpretation relevant to the valuation of insurance contract liabilities.
We focused on the following:

- The risk of inappropriate methodologies and assumptions being used to estimate the undiscounted best estimate liabilities for future claims cash flows , which now forms part of the liability for incurred claims ("LIC"), and the associated reinsurers' share, which form part of the assets for incurred claims ("AIC");
- The determination of the bottom up discount rates (including choice of illiquidity premium) and payment patterns used to derive the cash flows for incurred claims;
- The appropriateness of significant judgements applied to the selection of the Premium Allocation Approach ("PAA") measurement model for groups of contracts that are not automatically eligible, including the selection of "reasonably expects" assumptions;
- The appropriateness of methodologies and assumptions adopted to value reinsurance assets associated with Adverse Development Covers ("ADC") measured under the General Measurement Model ("GMM"); and
- The appropriateness of methodologies and assumptions adopted to calculate the amount of the risk adjustment to reflect the entity's view of the compensation that it requires for bearing risk.

We performed the following procedures to address the risks identified in relation to general insurance and reinsurance contracts:

- Understood and evaluated the process and the design and implementation of controls in place. This included testing the operating effectiveness of the relevant controls in place;
- Independently estimated the undiscounted best estimate liabilities (for the LIC) on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we compared our estimated reserves to those booked by management, and understood the reasoning behind any significant differences;
- Evaluated the appropriateness of the actuarial claims projection techniques and the reasonableness of the methodology and significant assumptions for the remaining lines of business;
- Understood updates made to the actuarial assumptions impacting the forecast future claims cash flows, and evaluated any changes for reasonableness. This includes assumptions on discount rates and payment patterns;
- Assessed the appropriateness of the judgements and supporting estimates used to determine use of the PAA measurement model;
- Assessed the appropriateness of the methodology and assumptions involved in the recognition of reinsurance assets associated with ADC contracts by reviewing the inputs to, and outputs from management's model including assessing any manual adjustments made to the output of the model; and
- Assessed the appropriateness of the methodology and assumptions applied to determine the risk adjustment and testing of the derivation of the risk adjustment.

Based on the work performed and evidence obtained, we consider the methodology and assumptions used to value the general insurance liabilities to be appropriate.

Valuation of hard to value investments
Refer to accounting policy I 'Insurance contract balances' and Notes 17, 26 and 28

The valuation of the investment portfolio involves judgement and continues to be an area of inherent risk. The valuation risk is not uniform for all investment types and is greatest for particular assets categorised as level 3 under the fair value methodology. This is because of the level of judgement required in the selection and application of significant assumptions and unobservable inputs, and the resulting sensitivities on the reported amounts. The types of asset for which this risk is considered greatest are:

- Commercial mortgage loans (UK life);
- Equity release mortgage loans (UK life); and
- Infrastructure loans (UK Life).

We assessed the valuation of hard to value investments by performing the following procedures:

- Understood and evaluated the process and the design and implementation of controls in place to determine the pricing and oversight of the process;
- Evaluated the valuation methodology and models adopted by management against expected methods, by performing recalculations of model calculations for a sample of models;
- Tested data inputs used in the valuation models to underlying documentation on a sample basis
- Evaluated assumptions used by management, including yield curves, discounted cash flows, property growth rates, house prices, longevity, credit spread and illiquidity premiums as relevant to each asset class and credit rating through benchmarking these to market available data and engaging valuation experts;
- Tested the operation of data integrity and change management controls for the commercial mortgage and equity release valuation models;
- Using our property valuation experts, assessed the objectivity, independence and competency of the surveyors used by management to determine the collateral values input into the commercial mortgage valuation models; and
- Using our valuation experts, performed independent valuations for a sample of loans valued by each different type of infrastructure loan model.

Based on the work performed and the evidence obtained, we consider the methodology and assumptions used by management to value hard to value assets to be appropriate.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The principal activity of the Company is to act as the onshore reinsurance vehicle for the Aviva plc Group. The company has reinsurance arrangements with UK L&P, AIL and CGI. The Company's financial reporting includes transactions and balances derived from financial information from these companies and we made use of those companies' auditors to provide evidence over these transactions and balances. In determining the scope of the audit, we performed risk assessment procedures which included understanding each of the companies' business operations, the internal control environment and process for the preparation of financial information. We identified which of those companies were of most significance to the audit of the Company based on the relative impact of the financial information included in the Company's financial statements derived from them.

Based on the output of our risk assessment, full scope audit procedures were performed over UK L&P and AIL, which had the most significant impact on the financial statements of the Company.

For CGI, we identified specific account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company and scoped our audit to include detailed testing of those account balances.

Where the work was performed by other auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Company financial statements as a whole. We maintained regular and timely communication with the other audit teams, including regular conference calls and written communications.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall company materiality	£182,000,000.
How we determined it	0.25% of total assets plus funds withheld
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant and concluded that total assets plus funds withheld was the most appropriate benchmark. Under IFRS 17, the significant "Deposits with ceding undertakings" asset in respect of funds withheld by cedants under the treaty and invested on behalf of the company, is included in the measurement of the insurance contracts, as it forms a part of the contractual cash flows. This asset backs the Insurance liabilities of the company under the treaty and represents the most significant asset held by the entity as part of its operations, and accordingly we concluded that total assets plus funds withheld is the most appropriate benchmark to determine materiality under IFRS 17.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £136,000,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £9,102,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

a. Obtaining the Directors' Going Concern assessment and challenging the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;

b. Considering the Directors' assessment of the regulatory Solvency coverage and liquidity position in the forward looking scenarios considered which have been driven from the Company's ORSA;

c. Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern; and

d. Enquiring and understanding the actions taken by the directors to mitigate the risks arising from the impacts of economic uncertainty, including review of Board, Risk and Audit Committee minutes and attendance at Audit Committee meetings.

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 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.

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non compliance with laws and regulations related to breaches of the UK and European regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our key audit matters. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instance of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the PRA and FCA in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes, including those of the Board, Risk Committee and Audit Committee;
- Attendance at Audit Committees, including cedant Audit Committees;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of areas identified as having an increased risk;

Independent auditors' report to the members of Aviva International Insurance Limited (continued)

- Considered the results of our procedures on significant accounting estimates for indicators of management bias; and
- Testing transactions entered into outside of the Company's normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2012 to 31 December 2023.

Philip Watson

Philip Watson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

4 April 2024

Accounting policies

The Company, a private limited company incorporated in England and Wales, transacts life and general and health reinsurance in the UK and Canada. The material accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss ("FVTPL").

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 9.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling ("£ million").

Comparative figures have been restated following the implementation of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments as detailed in note 1.

The Company's quota share arrangements are outlined in the Strategic report on page 4; these contracts are defined as reinsurance contracts issued for the purposes of this report.

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments retrospectively from 1 January 2023. As a result, the Company has restated certain comparative amounts. IFRS 17 significantly impacts the measurement and presentation of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features (participating investment contracts). IFRS 9 has had no impact on the measurement of the Company's financial instruments, but introduces new disclosure requirements. The nature and effects of the transition to IFRS 17 and IFRS 9 are summarised in note 1, including the financial impacts on the statement of financial position as at 1 January 2022. The Company's revised accounting policies are set out in (B), (F), (G), (I), (J), (K), (M) and (N) below.

In addition, the Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2023. The amendments do not have a significant impact on the Company's financial statements.

(i) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

(ii) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

(iii) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

(iv) Amendments to IAS 12 Income Taxes: International Tax Reform - Pillar Two Model Rules

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company. None of the amendments are expected to have a significant impact on the Company's financial statements.

(i) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(ii) Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants

Published by the IASB in October 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(iii) Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

Published by the IASB in September 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(iv) Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures: Supplier Finance Arrangements

Published by the IASB in May 2023. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(v) Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

Published by the IASB in August 2023. The amendments are effective for annual reporting beginning on or after 1 January 2025 and have yet to be endorsed by the UK.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

Accounting policies (continued)

The table sets out those items considered particularly susceptible to changes in estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates and assumptions	Accounting policy	Note
Measurement of insurance contracts	The principal subjective or complex assumptions used in the calculation of life insurance contract fulfilment cash flows include non-financial assumptions (in particular, annuitant and assurance mortality and future expenses) and the allowance for illiquidity in discount rates (in particular, top-down discount rates applied to annuity liabilities). The immediate impact of changes in these assumptions on the carrying amounts of insurance contracts is reduced when there is a corresponding adjustment to the Contractual Service Margin (CSM), i.e. for all changes in non-financial assumptions (calculated at locked-in discount rates for contracts measured under the General Measurement Model (GMM)) unless contracts are onerous. The principal subjective or complex assumptions used in the calculation of non-life liabilities include the allowance for illiquidity in the discount rates used to determine latent claim and structured settlements liabilities and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	I	17

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on monetary financial assets measured at FVTPL (see accounting policy (M)) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss.

(D) Fair value measurement

Fair value is the price that would be received when an asset is sold 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. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure, and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price.

If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(E) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

(F) Insurance service result

The insurance service result represents the Company's profits recognised on insurance contracts (measured in accordance with accounting policy (I)) in the period, excluding the impact of the time value of money and financial risks related to such contracts. The insurance service result contains two components:

(i) Insurance revenue

For insurance contracts applying the General Measurement Model (GMM), insurance revenue is comprised of:

- The amortisation of the Contractual Service Margin (CSM);
- The release of the risk adjustment included within the liability for remaining coverage;

Accounting policies (continued)

- Claims and expenses expected to be incurred in the period, as released from the liability for remaining coverage and adjusted for the allocation of loss components.

For insurance contracts applying the Premium Allocation Approach (PAA), insurance revenue is based upon the earning of expected premium receipts. Premium receipts are earned over the contract's coverage period based upon the passage of time or, where there is evidence that the release of risk differs from the passage of time, on the basis of the expected timing of insurance service expenses.

(ii) Insurance service expenses

Insurance service expenses are comprised of:

- Actual claims and non-acquisition fulfilment expenses incurred, adjusted for the allocation of loss components;
- The recognition and reversal of losses on onerous contracts;
- Other non-financial assumption changes which do not adjust the CSM, including those which affect the valuation of the liability for incurred claims.

(G) Insurance finance result

Insurance finance income/expenses are calculated on insurance contracts, comprising:

- Changes in the fair value of underlying items;
- The accretion of interest on the CSM;
- The unwind of discounting on fulfilment cash flows and the risk adjustment; and
- The impact of financial assumption changes upon fulfilment cash flows and the risk adjustment.

Where changes in expected future cash flows and risk adjustment on GMM contracts arise from non-financial assumption changes and experience variances, the difference between measuring the change in fulfilment cash flows using current financial assumptions and the impact which adjusts the CSM using locked in financial assumptions is recognised in the income statement in net finance expenses.

The accounting policies used to calculate amounts within the insurance finance result are discussed in greater detail in accounting policy (I).

(H) Net investment income

Investment income consists of dividends and interest for the year, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(I) Insurance contract balances

Insurance contracts are accounted for in accordance with IFRS 17. For the Company this is comprised of reinsurance contracts issued as described in the Strategic report which include the reinsurance of existing contracts in its cedants at treaty inception date. The key measurement principles are outlined below.

(a) IFRS 17 measurement models

The Company applies two measurement models to insurance contracts as follows:

Model	Applicable business
GMM	• Life reinsurance contracts accepted • Non-life reinsurance contracts accepted covering the development of claims incurred prior to contract inception
PAA	• Non-life reinsurance contracts accepted which meet PAA eligibility requirements

The Company does not have any business that is measured under the Variable Fee Approach (VFA) measurement model.

The Company applies judgement when determining eligibility criteria for the PAA measurement model (see accounting policy (I) section (b)).

Under each measurement model insurance contract liabilities are measured as the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC represents the obligation under the insurance contract for insured events that have not yet occurred i.e. the obligation that relates to the unexpired portion of the coverage period, including the Contractual Service Margin (CSM). The LIC reflects the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have already occurred but for which claims have not been reported.

The key features of each measurement model are set out below.

(i) General Measurement Model (GMM)

The GMM is the default IFRS 17 measurement model. The fulfilment cash flows comprise the present value of future cash flows within the boundary of the contract, discounted at current rates, and an explicit risk adjustment for non-financial risk.

Accounting policies (continued)

At inception, a CSM liability is recognised for each new group of contracts which represents the unearned profit to be recognised over the coverage period of the contract. Losses on groups of contracts that are onerous at inception are recognised immediately.

The CSM is subsequently remeasured for changes in the fulfilment cash flows relating to non-financial risk, applying locked in financial assumptions. Interest is accreted on the CSM using the locked-in discount rate and the CSM is amortised over the coverage period of the contract. The coverage period is determined based on the service provided to customers including both insurance and investment services. Losses on groups of contracts that are profitable at inception but subsequently become onerous are recognised immediately.

(ii) Premium Allocation Approach (PAA)

The PAA is a simplified measurement model which can be applied to all short duration contracts and to longer duration contracts that meet PAA eligibility criteria. It is applied to the Company's non-life insurance contracts except for the adverse development of claims existing at contract inception which are measured under the GMM.

The LRC is measured as the amount of premium received net of acquisition cash flows, less the amount of premiums and acquisition cash flows that have been recognised in profit or loss over the expired portion of the coverage period. Premium receipts and acquisition cash flows are recognised in profit or loss over the life of the contract, based on the expected timing of incurred claims.

If facts and circumstances indicate that a group of contracts may be onerous, the LRC is measured using GMM principles and losses for onerous contracts are recognised immediately in the income statement.

For contracts applying PAA, the measurement of the LIC aligns to the GMM, with an explicit risk adjustment for non-financial risk, and discounting applied to expected cash flows.

(b) Choice of measurement model

PAA eligibility

The Company has issued non-life reinsurance contracts which are not automatically eligible for the PAA model. Modelling is performed over the non-life reinsurance contracts to compare the value of the LRC measured under GMM and PAA. Where the LRC does not materially differ between the two measurement models (over the duration of the contract and in a range of reasonably foreseeable scenarios) the contract group is PAA eligible.

The Company's accepted non-life reinsurance contracts which insure the attachment of new business are PAA eligible, whereas the insured business covering the development of claims incurred prior to the contract inception date are not PAA eligible.

(c) Level of aggregation

The unit of account is a group of contracts, so insurance contracts are aggregated into groups for measurement purposes. Discrete CSMs are determined for each group of insurance contracts applying GMM. Groups of insurance contracts have been determined by identifying portfolios of insurance contracts comprising contracts subject to similar risks that can be managed together and dividing each portfolio into annual cohorts by year of issue. Profitability groupings are based on the profitability of contracts determined at initial recognition comprising:

- contracts that are onerous;
- contracts that have no significant possibility of becoming onerous (based on the probability that changes in assumptions would result in contracts becoming onerous); and
- all remaining contracts.

The Company has quota share reinsurance arrangements that assume risk from fellow Group subsidiaries, with each contract group comprising a single contract. The first annual cohort for each reinsurance arrangement includes existing contracts in its cedants at treaty inception date.

For contracts measured under the PAA, IFRS 17 permits a simplification whereby contract groups are assumed not to be onerous unless facts and circumstances indicate otherwise. The Company uses internal management information provided by its cedants to identify facts and circumstances that may indicate whether a contract group is onerous.

(d) Recognition and derecognition

An insurance contract issued by the Company is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Company provides insurance contract services in respect of any premiums within the boundary of the contract);
- the date the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- the date when facts and circumstances indicate that the contract is onerous.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Insurance contracts are derecognised when the contract is extinguished, i.e. when the specified obligations expire, are discharged, or are cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised.

(e) Estimate of future cash flows

The estimate of future cash flows is assessed at the level of groups of contracts and represents the best estimate of the Company's cost to fulfil a contract incorporating current estimates of non-financial assumptions. The estimate allows for all the cash inflows and outflows expected to occur within the contract boundary.

Accounting policies (continued)

The quota share reinsurance contracts issued by the Company are administered on a funds withheld basis, which are included as part of the expected cash inflows of the insurance contract balances. The funds withheld represent premiums due to the Company under the terms of the arrangements, and are remeasured to reflect the relevant underlying asset and liability fair values within the cedants.

(i) Contract boundaries

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company has a substantive obligation to provide insurance contract services. A substantive obligation to provide services ends when the Company has the practical ability to reassess the risks (insurance and financial risks transferred from the policyholder, so excluding lapse and expense risks) and set a price or level of benefits that fully reflects those reassessed risks for either the particular policyholder or the portfolio that contains the contract.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Company's substantive rights and obligations and, therefore, may change over time. Cash flows outside the contract boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

(ii) Principal non-financial assumptions

Principal non-financial assumptions used in the calculation of life insurance contract fulfilment cash flows include those in respect of annuitant and assurance mortality, lapses and future expenses. Expenses must be directly attributable to fulfilling insurance contracts, including an allocation of overheads to the extent that they can be allocated to groups of contracts in a systematic and rational way.

Principal non-financial assumptions used in the calculation of the non-life LIC use past claims experience to project future claims (estimated using a range of standard actuarial claims projection techniques).

(iii) Financial assumptions

Discount rates

Discounting is applied to the estimate of future cash flows. The Company uses a bottom-up discount rate for all life and non-life insurance ceded to the Company except for annuities. A top-down discount rate is applied to annuities to reflect more appropriately the characteristics of the annuity liabilities. For other contracts where liabilities are subject to lapse risk or where cash flows depend on underlying asset performance (such as unit-linked), the characteristics of the liability can be reflected using the bottom-up method which requires the application of less judgement.

Bottom-up discount rates

The discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium').

The illiquidity premium is determined as a percentage of the current spread over the risk-free yield on an index of covered bonds. The percentage applied reflects the liquidity characteristics of the liabilities including the propensity and ability of policyholders to lapse or surrender their contracts; for example, 100% for structured settlements where surrenders are not possible, and 0% for unit-linked contracts where policyholders can normally immediately surrender their contract for the unit value. An intermediate percentage is applied for other types of business.

Top-down discount rates

The discount rate is determined from the yield implicit in the fair value of an appropriate reference portfolio of assets that reflects the characteristics of the liability. Adjustments are made for differences between the reference portfolio and liability cash flows, including an allowance for defaults which reflects the compensation a market participant would require for credit risk.

Locked-in discount rates

For new business the CSM contribution is measured using a rate locked-in at initial recognition. On subsequent measurement of the fulfilment cash flows the reference portfolio is based on the assets held to match the portfolio of liabilities. For recently written contracts, an adjustment is made to liabilities where appropriate assets are yet to be sourced. For CSM remeasurement the Company sets one locked-in rate curve per cohort. The locked-in discount rate will be an average of the product market discount rates, weighted based on respective best estimate liabilities.

Inflation assumptions

Future inflation assumptions are treated as a financial assumption when applied to policyholder benefits or outsourced maintenance expenses that are contractually linked to an inflation index.

Presentation of financial assumption changes

The Company recognises the impact of financial assumption changes in the income statement.

(f) Risk Adjustment

The risk adjustment reflects the compensation required by the Company to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. The calculation of the risk adjustment is calibrated to the Group's pricing and capital allocation framework, leveraging the Solvency II view of non-financial risk, considering a lifetime view, and including diversification between risks.

The change in risk adjustment relating to current or past service is recognised within insurance revenue in the income statement. The impact of discounting the risk adjustment for GMM and PAA contracts is disaggregated and recognised within net finance expenses from insurance contracts.

(g) Contractual Service Margin

The CSM represents a liability for unearned profit measured at inception and recognised in the income statement over the life of the contract as insurance services are provided to the customer.

For profitable groups of insurance contracts, the CSM is established to ensure no profit is recognised at inception, hence it is equal and opposite to the net present value of the expected cash flows (including initial premiums and insurance acquisition cash flows) and the risk adjustment. For groups of insurance contracts issued that are onerous at initial recognition, the CSM is set to nil and losses are recognised in the income statement.

Subsequently, the CSM is adjusted for:

- Accretion of interest at locked-in discount rates (groups of GMM contracts only), which is charged to net finance expenses in the income statement;
- New contracts added to the same group;
- Changes in fulfilment cash flows (including risk adjustment) that relate to future service; and
- *Currency exchange differences.*

Changes in fulfilment cash flows that relate to future service include:

- Experience variances in premiums received during the period that relate to services provided from the start of the current period;
- Changes in expected future cash flows and risk adjustment on GMM contracts arising from non-financial assumption changes and experience variances, measured using locked in financial assumptions; and
- Experience variances in non-distinct investment components, premium refunds and rights to withdraw payable in the period.

Changes in fulfilment cash flows that relate to past or current service do not adjust the CSM and are recognised immediately in the income statement, including the following:

- Experience variances in claims and expenses incurred, which are recognised as the difference between insurance revenue (expected claims and expenses incurred) and insurance service expenses (actual claims and expenses incurred); and
- Changes in expected future cash flows and risk adjustment on GMM contracts arising from financial assumption changes and experience variances, including changes in cash flows that are contractually linked to an inflation index, which are recognised in net finance expenses from insurance contracts.

The balance on the CSM at the end of the period is available for release to profit or loss. The amount of CSM recognised in insurance revenue each period (the CSM amortisation) is determined by considering, for each group of contracts, coverage units that reflect the quantity of the benefits provided in each period and the expected coverage period. Coverage units are discounted and are updated at each reporting date to reflect the current best estimate of service expected to be provided in future periods.

(h) Loss components and loss offsetting

Losses on onerous contracts are recognised immediately within insurance service expenses in the income statement, and a loss component is established. Subsequent losses, and reversals of losses, arising from changes in fulfilment cash flows that relate to future service adjust the loss component and are recognised immediately in insurance service expenses to the extent that a balance remains on the loss component, after which a CSM will be established. A variable proportion approach is used to systematically allocate changes in fulfilment cash flows that relate to past or current service to the loss component, resulting in a deduction from the amount of these changes that is recognised within insurance revenue in the income statement with an offsetting adjustment to insurance service expenses. The variable proportion is determined each reporting date as the proportion of the balance on the loss component relative to the fulfilment cash flows for that group of contracts.

(i) Investment components and rights to withdraw

Investment components are amounts that are payable in all circumstances, regardless of whether an insured event occurs. This typically includes the account balance on unit-linked, surrender and maturity values on protection contracts and guaranteed payments on immediate annuities held by the Company's cedants' policyholders. Rights to withdraw, which may include items that are investment components, are amounts payable to the Company's cedants' policyholders that do not represent an additional benefit payable when an insured event occurs. This includes, but is not restricted to, maturity values that are not determined by the occurrence of an insured event, a policyholder's rights to receive a surrender value or refund of premiums on cancellation of a policy, rights to transfer an amount to another insurance provider and guaranteed annuity payments on a deferred annuity in excess of the death benefit payable prior to retirement. Investment components and rights to withdraw are excluded from insurance revenue and insurance service expenses in the income statement.

(j) Insurance acquisition cash flows

Insurance acquisition cash flows are costs associated with selling, underwriting and starting insurance contracts. The Company does not incur any insurance acquisition cashflows directly but does reimburse cedants for their acquisition cashflow amortisation cost through ceding commissions. These ceding commissions are offset against premium amounts recognised or included within insurance service expenses based upon the substance of their terms.

(J) Recognition and classification of financial assets

Financial assets are measured initially at fair value plus eligible transaction costs for financial assets held at amortised cost. Financial assets are subsequently measured at amortised cost or FVTPL based on a business model assessment and the extent to which the contractual cash flows associated with the financial assets are solely payments of principal and interest (SPPI). The Company measures financial assets at FVTPL if they do not meet the SPPI criteria or if they are held within a business model where they are managed and evaluated on a fair value basis resulting from the Company's management of capital on a regulatory basis. A financial asset is classified at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise to cash flows that are SPPI on the principal amount outstanding.

On initial recognition, the Company may irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its objectives for managing those financial assets, in which case all affected financial assets are reclassified on the first day of the next reporting period.

Accounting policies (continued)

(K) Impairment of financial assets

Financial assets held at amortised cost are in the scope of expected credit loss requirements under IFRS 9. This includes financial assets held at amortised cost such as other loans and receivables.

Expected credit loss is an unbiased, probability-weighted estimate of credit losses. It considers all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

Expected credit losses are calculated on either a 12-month or lifetime basis depending on the extent to which credit risk has increased significantly since initial recognition.

The gross carrying amount of a financial asset is written off to the extent that there is no reasonable expectation of recovery. Subsequent recoveries in excess of the financial asset's written-down carrying value are credited to the income statement.

(L) Derecognition and contract modification of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is extinguished (that is when the obligation is discharged or cancelled, or expires). The difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

If the terms of a financial asset or financial liability measured at amortised cost are substantially modified, then the contractual rights to cash flows from the original financial asset or financial liability are deemed to have expired or extinguished. The original financial asset or financial liability is derecognised and a new financial asset or financial liability is recognised at fair value.

A financial asset measured at amortised cost is not derecognised if the contractual terms are not substantially modified and a modification gain or loss is recognised in profit or loss.

(M) Financial investments

The Company classifies financial investments at FVTPL using the business model assessment as described in accounting policy (L). The FVTPL category has two subcategories - those that meet the definition as being held for trading and those that are held at FVTPL based on the business model assessment. Derivatives are classified as trading. All other investments are classified as other than trading.

The fair value of investments is based on the quoted price within the bid-ask spread that is most representative of fair value or based on the cash flow models using market observable inputs or unobservable inputs. Changes in the fair value of investments are included in the income statement in the period in which they arise.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values.

(N) Derivative financial instruments

Derivative financial instruments include over the counter credit swaps that derive their value from fluctuations in the credit worthiness of a basket of European listed corporates.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are classified as mandatorily held at FVTPL, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association master agreements or their equivalent, which are designed to provide legally enforceable set off in the event of default, reducing the Company's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 26.

Accounting policy (P) below covers collateral, both received and pledged, in respect of these derivatives.

(O) Receivables and other financial assets

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables and other financial assets are measured at amortised cost using the effective interest rate method, less provision for impairment.

Loans due from Group operations

Loans with fixed maturities are recognised when cash is advanced to borrowers. These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances.

Accounting policies (continued)

To the extent that a loan is considered to be uncollectable, it is written down as impaired through the income statement. Any subsequent recoveries are credited to the income statement.

(P) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. However, where the Company has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Company either (a) sells or re-pledges these assets in the absence of a default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash which is legally segregated from the Company is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(Q) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(R) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(S) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement.

Deferred tax related to any fair value re-measurement of investments held at fair value through other comprehensive income, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

Accounting policies (continued)

(T) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

(U) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by the Board.

Income statement
For the year ended 31 December 2023

	Note	2023 £ million	Restated [1] 2022 £ million
Insurance revenue	3	**5,186**	5,060
Insurance service expense	5	**(4,779)**	(4,462)
Insurance service result	F	**407**	598
Investment return	4	**82**	56
Net finance income/(expense) from insurance contracts	4	**503**	(766)
Net financial result	G, 4	**585**	(710)
Other expenses	5	**(2)**	(1)
Profit/(loss) before tax		**990**	(113)
Tax (expense)/credit	S, 9	**(235)**	31
Profit/(loss) for the period		**755**	(82)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The accounting policies (identified alphabetically) on pages 22 to 30 and notes (identified numerically) on pages 35 to 70 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2023

	Note	Ordinary Share Capital £ million	Retained earnings [1] £ million	Total equity £ million
Balance at 1 January 2022 - previously reported		**780**	**1,522**	**2,302**
Total change relating to IFRS 17 transition		—	19	19
Balance at 1 January 2022 - restated for transition		**780**	**1,541**	**2,321**
Loss for the year - restated		—	(82)	(82)
Total comprehensive loss for the year - restated		**—**	**(82)**	**(82)**
Dividends paid	10	—	(270)	(270)
Reduction in Share Capital - transfer to retained earnings	15	(779)	779	—
Balance at 31 December 2022 - restated		**1**	**1,968**	**1,969**
Profit for the year		—	755	755
Total comprehensive income for the year		—	755	755
Dividends paid	10	—	(310)	(310)
Balance at 31 December 2023		**1**	**2,413**	**2,414**

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The Company has no recognised income and expenses other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

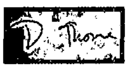
The accounting policies (identified alphabetically) on pages 22 to 30 and notes (identified numerically) on pages 35 to 70 are an integral part of the financial statements.

Statement of financial position
As at 31 December 2023

	Notes	2023 £ million	Restated [1] 2022 £ million	Restated [1] 2021 £ million
Assets				
Financial investments	M, 12	**—**	12	—
Insurance contract assets	I, 17	**616**	826	1,001
Receivables and other financial assets	O, 13	**217**	265	383
Prepayments and accrued income	14	**3**	1	—
Current tax assets	S, 19	**—**	11	222
Deferred tax assets	S, 19	**112**	22	—
Cash and cash equivalents	23 (b)	**1,717**	951	951
Total assets		**2,665**	2,088	2,557
Equity				
Ordinary share capital	T, 15	**1**	1	780
Retained earnings	16	**2,413**	1,968	1,541
Total equity		**2,414**	1,969	2,321
Liabilities				
Deferred tax liabilities	S, 19	**—**	—	4
Current tax liabilities	S, 19	**250**	—	—
Payables and other financial liabilities	Q, 20	**1**	65	179
Other liabilities	21	**—**	54	53
Total liabilities		**251**	119	236
Total equity and liabilities		**2,665**	2,088	2,557

1. The 2021 and 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The financial statements on pages 22 to 70 were approved by the Board of directors on 4 April 2024 and signed on its behalf by:



Darren Thorne

Director

The accounting policies (identified alphabetically) on pages 22 to 30 and notes (identified numerically) on pages 35 to 70 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2023

	Notes	2023 £ million	2022 £ million
Cash flows from operating activities			
Cash generated from operating activities	23(a)	**1,136**	54
Tax (paid) / received		**(60)**	216
Total net cash generated from operating activities		**1,076**	270
Cash flows used in financing activities			
Dividends paid	10	**(310)**	(270)
Total net cash used in financing activities		**(310)**	(270)
Total net increase in cash and cash equivalents		**766**	—
Cash and cash equivalents at 1 January		**951**	951
Cash and cash equivalents at 31 December	23(b)	**1,717**	951

The accounting policies (identified alphabetically) on pages 22 to 30 and notes (identified numerically) on pages 35 to 70 are an integral part of the financial statements.

1. Changes to comparative amounts on transition to IFRS 17 and IFRS 9

The Company has adopted IFRS 17 Insurance Contracts from 1 January 2023 and comparatives have been retrospectively restated from the transition date of 1 January 2022. A restated opening balance sheet has been produced as at that date.

IFRS 17 Insurance Contracts provides a comprehensive and consistent approach to accounting for insurance contracts. It replaces IFRS 4 which was issued in 2005 and was largely based on grandfathering of previous local accounting policies.

The Company has also adopted IFRS 9 Financial Instruments from 1 January 2023 and comparatives have been retrospectively restated. IFRS 9 incorporates new classification and measurement requirements for financial assets, introduces a new expected credit loss impairment model to replace the IAS 39 incurred loss model and new hedge accounting requirements. The Company had previously deferred the application of IFRS 9 to align with the implementation of IFRS 17. IFRS 9 has not resulted in any measurement differences on adoption by the Company, but does impact the disclosure of financial instruments as described in note 1(b).

Accounting policies that have been revised as a result of adoption of IFRS 17 and IFRS 9 are presented in Accounting Policies. Significant methods, judgements and assumptions applied in measurement of insurance contracts are set out in note 17.5. This note focuses on the changes made on transition to IFRS 17 and IFRS 9.

(a) IFRS 17 Insurance Contracts

(i) Transition to IFRS17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, participating investment contracts and reinsurance contracts. It introduces a model that measures groups of contracts based on the present value of future cash flows with an explicit risk adjustment for non-financial risk (the fulfilment cash flows) and a CSM representing the unearned profit to be recognised in profit or loss over the service period (coverage period).

Losses on contracts that are onerous at inception are recognised immediately. The core of IFRS 17 is the GMM, supplemented by the VFA which is a specific adaptation for contracts with direct participation features, and the PAA which is a simplified model for short duration contracts.

The application of IFRS 17 significantly impacts the measurement and presentation of insurance and participating investment contracts and reinsurance contracts. The financial impact of measurement changes is more significant for life insurance than non-life insurance contracts, however, there are significant changes to presentation and disclosures for all insurance contracts.

Under IFRS 17 the presentation of insurance revenue and insurance service expenses in the income statement is based on the concept of insurance services provided during the period. Extensive disclosures provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts. The Company's disclosures will be aligned to two major groupings: life risk and non-life (general insurance and health). Further details of these groupings are provided in note 17.

Changes in accounting policies resulting from the implementation of IFRS 17 have been applied in accordance with the transitional provisions of the standard, which impact the measurement of the CSM at the transition date. The CSM represents a liability for unearned profit, hence will be recognised in the income statement over the remaining life of the contract as insurance related services are provided.

The fully retrospective approach (FRA) has been used for all of the Company's business, calculating the CSM at the date of transition as if the standard had always applied.

(ii) Financial impacts on transition to IFRS 17

The Company's equity, as restated for the adoption of IFRS 17, is £2,321 million at the transition date of 1 January 2022, including a CSM of £2,238 million (gross of tax). The Company's equity reported on an IFRS 4 basis at 31 December 2021 was £2,302 million.

The financial impacts on transition to IFRS 17 are summarised in the table below, which sets out the restated statement of financial position on the transition date:

	31 December 2021 As previously reported	Reclassification and derecognition	IFRS 17 measurement	Total change	1 January 2022 Restated
	£ million	£ million	£ million	£ million	£ million
Assets					
Insurance contract assets	—	866	135	1,001	1,001
Receivables and other financial assets	71,130	(70,747)	—	(70,747)	383
Deferred acquisition costs	507	(507)	—	(507)	—
Current tax assets	222	—	—	—	222
Cash and cash equivalents	951	—	—	—	951
Total assets	**72,810**	**(70,388)**	**135**	**(70,253)**	**2,557**
Equity					
Ordinary share capital	780	—	—	—	780
Retained earnings	1,522	(84)	103	19	1,541
Total equity	**2,302**	**(84)**	**103**	**19**	**2,321**
Liabilities					
Insurance contract liabilities (formerly gross insurance liabilities)	70,276	(70,276)	—	(70,276)	—
Deferred tax liabilities	—	(28)	32	4	4
Payables and other financial liabilities	179	—	—	—	179
Other liabilities	53	—	—	—	53
Total liabilities	**70,508**	**(70,304)**	**32**	**(70,272)**	**236**
Total equity and liabilities	**72,810**	**(70,388)**	**135**	**(70,253)**	**2,557**

Reclassification and derecognition in the restated opening statement of financial position

The Company is entitled to deposits held by cedant undertakings which represent premiums withheld under the terms of quota share reinsurance arrangements. These were previously classified as financial assets and measured at fair value but are now in scope of IFRS 17 and are included within the contract fulfilment cashflows. The value of deposits held by cedant undertakings reclassified at 31 December 2021 was £70,747 million as shown in the table above.

On adoption of IFRS 17, the concept of deferred acquisition costs (DAC) is no longer applied to produce a separately recognised asset in relation to insurance contracts, instead it is implicitly included in the measurement of insurance contract assets and liabilities. £112 million DAC on long-term insurance contracts has been derecognised on transition. £395 million DAC on non-life insurance contracts has been presented as a reclassification to insurance contract assets.

Remeasurement in the restated opening statement of financial position

The drivers of remeasurements in the restated opening statement of financial position include the following:

Drivers	Description	£ million
IFRS 4 margins	Margins included in the IFRS 4 measurement of insurance contract liabilities are excluded from the IFRS 17 fulfilment cash flows, as the liabilities are measured on a best estimate basis with a separate explicit adjustment for risk.	830
Differences in the valuation of future cash flows	The primary differences in measurement of the future cash flows are: • Inclusion of future profits from unit-linked business, that are not fully recognised under IFRS 4; • Change in discount rate for life insurance business, most materially for annuities; and • Introduction of discounting for all non-life insurance business (under IFRS 4 only longer duration claims are discounted).	2,257
Contractual Service Margin	This IFRS 17 liability represents the unearned profit of the insurance contracts which will be recognised in profit or loss over the coverage period in line with the service provided to customers.	(2,238)
Risk Adjustment	The risk adjustment is an explicit allowance for risk recognised under IFRS 17, replacing some of the IFRS 4 margins:	(714)
Change in deferred tax due to items subject to remeasurement	Taxable profits are generally based on an accounting profit and the adoption of IFRS 17 will impact current tax liabilities on a go forward basis. The principles of deferred tax mean that the total tax (current and deferred) remains aligned to the reported profits. The increase in net assets on adoption of IFRS 17 gives rise to a deferred tax liability which will reverse as profits become taxable in the future.	(32)
Total - Remeasurement		**103**
DAC - Derecognition	DAC on long-term insurance contracts has been derecognised on transition, instead it is implicitly included in the measurement of insurance contract assets.	(112)
Change in deferred tax due to items derecognised	Deferred tax impacts from the derecognition of DAC on long-term insurance contracts.	28
Financial impacts on transition to IFRS17		**19**

The impact on transition to IFRS 17 is most significant for the Company's life business where the most material items are the deferral of profit in the CSM and the offsetting recognition of unit-linked business future profits from reinsurance contracts issued. A significant proportion of the CSM on transition arises from annuities in force at the Company's cedant on initial recognition of the reinsurance contracts issued, the unwind of which will become a material driver of the contribution to future profits. Offsetting this, the majority of profits ceded to the Company on new annuity and protection business will now be deferred. In addition, under IFRS 17, the impact of changes in non-financial assumptions on future cash flows will be adjusted through the CSM and spread forward rather than being recognised immediately in profit as under IFRS 4.

There are more limited impacts from the Company's non-life business.

IFRS 17 also introduces significant changes in the presentation of the income statement:

- The insurance service result separately presents the result, before the effects of financial risks, for insurance contracts, and comprises insurance revenue and insurance service expenses.
- Insurance revenue, the composition of which is set out in accounting policy [F], represents the allocation over the life of the insurance contract of premiums received. Insurance revenue replaces net earned premiums.
- Insurance service expense separately presents the claims and expenses incurred in fulfilling insurance contracts. Costs incurred in relation to other types of business continue to be presented within other operating expenses.
- The net financial result comprises investment return, the finance income/expense on insurance contracts that arises from discounting, changes in financial risk and changes in the fair value of underlying items.
- Other income and expense items are presented in a similar manner as previously reported.

The IFRS loss for the year ending 31 December 2022 has been restated as follows:

	Year ended 31 December 2022 - Reported	Change	Restated 31 December 2022
	£ million	£ million	£ million
IFRS (loss) before tax	(24)	(89)	(113)
Tax credit	6	25	31
IFRS (loss) for the period	(18)	(64)	(82)

The Company's restated 2022 loss after tax has increased by £(64) million under IFRS 17. The loss increases under IFRS 17 due to the deferral of profits into the CSM and changes to the valuation of future cash flows as a result of interest rate rises.

(b) IFRS 9 Financial Instruments

IFRS 9 introduces new classification and measurement requirements for financial assets. The Company's financial assets continue to be measured at FVTPL or amortised cost. The basis of classification depends on the business model for managing the cash flows from these assets and their contractual cash flow characteristics, as set out in accounting policy (J). The IFRS 9 expected credit loss model for impairment is applied to any financial assets held at amortised cost. The outcome for financial liabilities remains unchanged as the Company has elected to recognise fair value changes attributable to own credit risk in the income statement for financial liabilities designated at FVTPL.

Changes in accounting policies as a result of adopting IFRS 9 have been implemented retrospectively with the exception of assessments that have been made on the basis of facts and circumstances that existed at the date of initial application of 1 January 2023, as follows:

- The determination of the business model within which a financial asset is held.
- The designation (and revocation of previous designations) of certain financial assets and financial liabilities measured at FVTPL.

The retrospective restatement of comparatives has resulted in no adjustments to the measurement of financial instruments in the financial statements.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets as at the transition date of 1 January 2022. The table excludes deposits held by cedant undertakings, which were previously designated as FVTPL under IAS 39 but which are now in scope of IFRS 17.

	IFRS 9				IAS 39		
	Mandatorily held at FVTPL	**Designated at FVTPL**	**Amortised cost**	**Total carrying amount**	Designated at FVTPL	Amortised cost	Total carrying amount
At 1 January 2022	**£ million**	**£ million**	**£ million**	**£ million**	£ million	£ million	£ million
Financial assets							
Loans	—	—	**204**	**204**	—	204	204
Collateral pledged	—	—	**179**	**179**	—	179	179
Cash and cash equivalents	—	—	**951**	**951**	—	951	951

There were no impacts on the categorisation or measurement of financial liabilities.

2. Exchange rates

Assets and liabilities have been translated at the following year end rates:

	2023	2022
Euro	**1.1532**	1.1298
Canadian Dollar	**1.6871**	1.6386

Income statement items have been translated at the following average rates:

	2023	2022
Euro	**1.1500**	1.1700
Canadian Dollar	**1.6800**	1.6100

3. Insurance Revenue

						Restated [1]
			2023			2022
	Life Risk	**Non-Life**	**Total**	Life Risk	Non-Life [2]	Total
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Contracts not measured under the PAA						
CSM recognised for services provided	**273**	—	**273**	226	—	226
Change in risk adjustment for expired risk	**32**	**13**	**45**	45	20	65
Expected incurred claims and other insurance service expenses	**1,004**	**277**	**1,281**	1,039	456	1,495
	1,309	**290**	**1,599**	1,310	476	1,786
Contracts measured under the PAA	—	**3,587**	**3,587**	—	3,274	3,274
Total insurance revenue	**1,309**	**3,877**	**5,186**	1,310	3,750	5,060

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).
2. 2022 includes £355 million from the amendment of reinsurance arrangements with CGI to increase the portion of reinsurance of its insurance liabilities from 25% to 50%.

For contracts measured under the PAA, amounts recognised in insurance revenue are based on the premiums earned in the year.

4. Net financial result

The following table analyses the Company's net financial results in profit or loss. This analysis is provided across Life Risk, Non-Life and Other activities.

				2023				Restated[1] 2022
	Insurance contracts				Insurance contracts			
	Life Risk £ million	**Non-life £ million**	**Other £ million**	**Total £ million**	Life Risk £ million	Non-life £ million	Other £ million	Total £ million
Investment return								
Interest and similar income	—	—	**80**	**80**	—	—	21	21
Other investment income	—	—	**2**	**2**	—	—	35	35
Total investment return	—	—	**82**	**82**	—	—	56	56
Net finance income / (expenses) from insurance contracts								
Interest accreted on CSM	**(51)**	—	—	**(51)**	(43)	—	—	(43)
Effect of, and changes in, interest rates and other financial assumptions	**(4,657)**	**13**	—	**(4,644)**	8,362	275	—	8,637
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**25**	—	—	**25**	(8)	—	—	(8)
Investment return on deposits with cedants	**5,084**	**89**	—	**5,173**	(8,949)	(403)	—	(9,352)
Total net finance income / (expenses) from insurance contracts	**401**	**102**	—	**503**	(638)	(128)	—	(766)
Net financial result	**401**	**102**	**82**	**585**	(638)	(128)	56	(710)
Represented by:								
Amounts recognised in profit or (loss)	**401**	**102**	**82**	**585**	(638)	(128)	56	(710)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Net finance income/(expenses) from insurance contracts includes the Company's investment return on deposits with cedants which are classified as *insurance contract fulfilment cash flows within the scope of IFRS 17.*

The net finance income from insurance contracts of £503 million (2022: *£(766) million net finance expense*) recognised in the income statement includes the impact of the change in financial assumptions, the unwind of discounting on the fulfilment cash flows, investment return on deposits with cedants and interest accretion on the CSM. The expense in 2022 is as a result of significant increases in interest rate yields over the period.

5. Details of expenses

The following table analyses expenses incurred by the Company in profit or loss.

	Note	**2023 £ million**	Restated[1] 2022 £ million
Claims and benefits incurred - life		**(1,217)**	(1,043)
Claims and benefits incurred - non-life insurance		**(3,535)**	(3,305)
Losses and reversal of losses on onerous insurance contracts		**(27)**	(114)
Other expenses		**(2)**	(1)
Total expenses		**(4,781)**	(4,463)
Represented by expenses included within the income statement:			
Insurance service expense		**(4,779)**	(4,462)
Other operating expenses		**(2)**	(1)
Total expenses		**(4,781)**	(4,463)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Losses and reversal of losses on onerous insurance contracts are driven by the Company's non-life business where it uses the GMM to measure the existing contracts in its cedants at treaty inception date. Losses on onerous insurance contracts recognised in 2023 of £27 million (*2022: £114 million*) were predominately driven by changes in the timing of non-life expected cashflows offset by favourable changes in ultimate claims costs in the year.

6. Employee information

The Company has no employees (*2022: nil*). All UK employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited. The Company is recharged with the costs of the staff provided by Aviva Employment Services Limited.

7. Directors' remuneration

Ms Belezina, Ms Buttigieg, Mr English and Mr Thorne were remunerated during the period by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc. Ms Belezina was remunerated for her services to the Group as a whole. Ms Belezina was not remunerated for her services as a director of the Company and the amount of time spent performing her duties was incidental to her role across the Group.

Ms Buttigieg's, Mr English's and Mr Thorne's remuneration is disclosed within the aggregate of key management compensation in note 27(b).

The fees for Ms Bateman and Messrs Aronson, Needleman, Thoresen, Williams and Wright are paid for and borne by the Company.

The emoluments in respect of Ms Bateman, Ms Buttigieg and Messrs Aronson, English, Needleman, Thoresen, Thorne, Williams and Wright are shown in the table below::

	2023	2022
	£'000	£'000
Aggregate emoluments	**1,164**	1,136
	1,164	1,136

During the year, none of the directors (*2022: nil*) accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, none of the directors (*2022: one*) exercised share options, and two of the directors (*2022: two*) received shares under long term incentive schemes.

The details of the highest paid director are as follows:

	2023	2022
	£'000	£'000
Aggregate emoluments	**397**	469
	397	469

During the year the highest paid director did not receive shares under long term incentive schemes.

8. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP, is as follows:

	2023	2022[1]
	£'000	£'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**463**	665
Audit related assurance services	**261**	254
	724	919

1. Following review the comparative amount for fees payable for the statutory audit of financial statements has been revised from the previously reported value of £204,000to £665,000.

Fees payable for audit related assurance include fees in relation to the audit of the Solvency II regulatory returns for 2023 and 2022.

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates, for services other than the statutory audit and audit related assurance services of the Company and other Group undertakings are disclosed in the consolidated accounts of Aviva plc.

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

9. Tax

(a) Tax charge/(credit) to the income statement

(i) The total tax charge/(credit) comprises:

	Note	**2023**	Restated[1] 2022
		£ million	£ million
Current tax			
For the period		**325**	—
Adjustments in respect of prior years		**—**	(6)
Total current tax		**325**	(6)
Deferred tax			
Origination and reversal of temporary differences		**(90)**	(25)
Total deferred tax		**(90)**	(25)
Total tax charged/(credited) to the income statement		**235**	(31)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

Current tax prior year adjustments includes a credit of £nil (2022: £5 million) for current year losses carried back against profits of the prior year.

(ii) Deferred tax charged/(credited) to the income statement represents movements on the following items:

	Note	2023 £ million	Restated [1] 2022 £ million
Long term business technical provisions and other insurance items		(90)	(25)
Total deferred tax charged/(credited) to the income statement		**(90)**	(25)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

(b) Tax charged/(credited) to other comprehensive income

There was no tax charged or credited to other comprehensive income in either 2023 or 2022.

(c) Tax reconciliation

The tax on the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	2023 £ million	Restated [1] 2022 £ million
(Loss) before tax - previously reported			(24)
Impact of changes under IFRS 9 and IFRS 17			(89)
Profit /(Loss) before tax		**990**	(113)
Tax calculated at standard UK corporation tax rate of 23.5% (2022: 19%)		**233**	(21)
Adjustment to tax charge in respect of prior years		—	(1)
Movement in valuation of deferred tax		**2**	(9)
Total tax charged/(credited) to income statement	9(a)	**235**	(31)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The UK Government has enacted an increase in the UK corporation tax rate to 25% to take effect from 1 April 2023. This rate has been used in the calculation of the Company's deferred tax assets as at 31 December 2022 and 31 December 2023.

During 2023, legislation on the Organisation for Economic Co-operation and Development proposals to reform the international tax system and introduce a global minimum effective rate of corporation tax of 15% was enacted in the UK, to take effect from 31 December 2023. The Company (as part of the Aviva Group) has assessed its potential exposure, based on the available information, and does not anticipate any exposure to additional tax under these provisions.

10. Dividends

	Note	2023 £ million	2022 £ million
Ordinary dividends declared and charged to equity in the year:			
Interim 2022 - £1,538 per share, paid on 17 May 2022		—	120
Interim 2022 - £1,500,000 per share, paid on 16 December 2022		—	150
Interim 2023 - £2,100,000 per share, paid on 16 June 2023		**210**	—
Interim 2023 - £1,000,000 per share, paid on 22 September 2023		**100**	—
Total dividends for the year	16&27(a)(iii)	**310**	270

Note 15 provides further information on shares which were cancelled during 2022, impacting the dividend amounts per share referenced in the table above.

11. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

Level 2

Notes to the financial statements (continued)

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in active market;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads); and
- market-corroborated inputs.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are investment properties and commercial and equity release mortgage loans.

The majority of the Company's assets and liabilities measured at fair value are based on quoted market information or observable market data. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2022 Annual Report and Financial Statements.

(c) Comparison of the carrying amount and fair values of financial instruments

Set out below is a comparison of the carrying amounts and fair values of financial assets/liabilities:

	2023		2022	
	Mandatorily held at FVTPL	**Carrying amount**	Mandatorily held at FVTPL	Carrying amount
	£ million	**£ million**	£ million	£ million
Financial assets				
Derivative financial instruments	—	—	12	12
Financial liabilities				
Derivative liabilities	—	—	(52)	(52)

Derivative instruments held by the Company were unwound during 2023.

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables and other financial assets
- Prepayments and accrued income
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

Notes to the financial statements (continued)

(d) Fair value hierarchy

An analysis of assets and liabilities measured at fair value categorised by fair value hierarchy is given below:

	Note	**Level 1 £ million**	**Level 2 £ million**	**Level 3 £ million**	**2023 Total £ million**
Financial assets					
Derivative financial Instruments	12	—	—	—	—
Total		—	—	—	—
Financial liabilities					
Derivative financial instruments	26	—	—	—	—
Total		—	—	—	—

	Note	Level 1 £ million	Level 2 £ million	Level 3 £ million	2022 Total £ million
Financial assets					
Derivative financial instruments	12	12	—	—	12
Total		—	—	—	—
Financial liabilities					
Derivative financial instruments	26	(52)	—	—	(52)
Total		(52)	—	—	(52)

(e) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

Transfers between levels of fair value hierarchy

There have been no transfers between levels of the fair value hierarchy when compared to 2022.

12. Financial investments

(a) Carrying amount

Financial investments comprise:

	2023 Total £ million	2022 Total £ million
Derivative financial instruments	—	12
Total financial investments	—	12

Financial investments are held mandatorily at FVTPL. Derivative instruments held by the Company were unwound during 2023.

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

	Cost/ amortised cost £ million	**Unrealised gains £ million**	**Unrealised losses and impairments £ million**	**2023 Fair value £ million**	Cost/ amortised cost £ million	Unrealised gains £ million	Unrealised losses and impairments £ million	2022 Fair value £ million
Other investments								
Derivative financial instruments	—	—	—	—	1	11	—	12
	—	—	—	—	1	11	—	12

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Notes to the financial statements (continued)

13. Receivables and other financial assets

	Note	2023 £ million	Restated[1] 2022 £ million
Loan due from parent company	27(a)(i)	**200**	200
Amounts due from parent company	27(a)(iii)	**17**	11
Receivable for collateral pledged		**—**	54
Total as at 31 December		**217**	265
Expected to be recovered in less than one year		**17**	61
Expected to be recovered in more than one year		**200**	204
		217	265

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Deposits with cedants £70,773 million (*2022: £64,098 million*), previously categorised within Receivables and other financial assets, are now classified as insurance contract fulfilment cash flows within the scope of IFRS 17. This reclassification does not affect their measurement.

The receivable for collateral pledged at 31 December 2022 represented cash collateral pledged to the derivative counterparties against the derivative liabilities held at year end. Derivative instruments held by the Company were unwound during 2023.

14. Prepayments and accrued income

	2023 £ million	2022 £ million
Prepayments and accrued income	**3**	1
Expected to be recovered in less than one year	**3**	1
	3	1

15. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2023 £ million	2022 £ million
Allotted, called up and fully paid		
100 (2022: 100) ordinary shares of £10,000 each	**1**	1

Ordinary share capital movements		2023		2022
	Number of shares	**Share capital £ million**	Number of shares	Share capital £ million
At 1 January	**100**	**1**	78,000	780
Shares cancelled	**—**	**—**	(77,900)	(779)
At 31 December	**100**	**1**	100	1

On 26 September 2022, the Board passed a special resolution to reduce the Company's share capital by £779 million. The share capital was reduced by cancelling and extinguishing 77,900 ordinary shares of £10,000 each. The resulting amount was credited to the distributable reserves of the Company.

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

Notes to the financial statements (continued)

16. Retained earnings

	Note	2023 £ million	Restated[1] 2022 £ million
Balance at 1 January		**1,968**	1,541
Profit/(loss) for the year		**755**	(82)
Dividends paid	10	**(310)**	(270)
Transfer from share capital		**—**	779
Balance at 31 December		**2,413**	1,968

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital requirements. Details of the Company's regulatory capital surplus are provided in the Strategic report starting on page 4.

17. Insurance contracts

The Company has presented the information about insurance contracts using the following product groups:

Reportable product group	Products and services	Measurement model
Life risk	Life insurance and investment risks assumed from intra-Group quota share reinsurance arrangements. Underlying risks reinsured include annuities, protection and non-participating investment contracts.	GMM
Non-life	Non-Life insurance risks assumed from intra-Group quota share reinsurance arrangements. Underlying risks reinsured include general insurance and health insurance risks.	Predominantly measured using the PAA. The GMM is used to measure the adverse development of claims existing at contract inception.

The following reconciliations show how the net carrying amounts of insurance contracts in each product group changed during the year as a result of cash flows and amounts recognised in the income statement.

For each product group, a table is presented that separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the income statement.

A second reconciliation is presented for contracts not measured under the PAA, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM.

(i) Carrying amount

Insurance contracts at 31 December comprised:

				2023			Restated[1] 2022
	Note	**Life risk** **£ million**	**Non-life** **£ million**	**Total** **£ million**	Life risk £ million	Non-life £ million	Total £ million
Insurance contracts							
Insurance contract balances excluding deposits with cedants		63,531	6,626	70,157	57,236	6,036	63,272
Deposits with cedants included in insurance contract balances		(63,993)	(6,780)	(70,773)	(57,592)	(6,506)	(64,098)
Total insurance contract (assets) / liabilities	17.1	**(462)**	**(154)**	**(616)**	(356)	(470)	(826)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The following table sets out the carrying amounts of insurance contracts expected to be (recovered)/settled more than 12 months after the reporting date:

	2023 £ million	Restated[1] 2022 £ million
Total insurance contract (assets) / liabilities	**(434)**	**(335)**

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The Company's maximum exposure to credit risk is considered £616 million at 31 December 2023 (31 December 2022: £826 million), as the Company is able to offset the deposits with cedants against its obligation to make payments in respect of the cedants' insurance liabilities.

Notes to the financial statements (continued)

17.1 Movements in insurance contract balances

The following movements have occurred in insurance contract balances during the year:

				2023			Restated [1] 2022
	Note	**Life risk £ million**	**Non-life £ million**	**Total £ million**	Life risk £ million	Non-life £ million	Total £ million
Insurance contract (asset) / liability at 1 January		**(356)**	**(470)**	**(826)**	(800)	(201)	(1,001)
Insurance revenue	3	**(1,309)**	**(3,877)**	**(5,186)**	(1,310)	(3,750)	(5,060)
Insurance service expenses	5	**1,212**	**3,567**	**4,779**	1,048	3,414	4,462
Insurance finance expenses	4	**(401)**	**(102)**	**(503)**	638	128	766
Amounts received / (paid) and other cash flows for reinsurance contracts issued		**392**	**728**	**1,120**	68	(61)	7
Insurance contract (asset) / liability at 31 December		**(462)**	**(154)**	**(616)**	(356)	(470)	(826)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

(i) Life risk

Insurance contracts

The following table shows life risk insurance contracts analysed by remaining coverage and incurred claims:

	2023	Liabilities for remaining coverage			
		Excluding loss component	**Loss component**	**Liabilities for incurred claims**	**Total**
	Note	**£ million**	**£ million**	**£ million**	**£ million**
Insurance contract (asset) / liability at 1 January		**(361)**	**5**	**—**	**(356)**
Insurance revenue	3	**(1,309)**	**—**	**—**	**(1,309)**
Contracts under the fully retrospective transition approach		(1,309)	—	—	(1,309)
Insurance service expenses	5	**(3,669)**	**(5)**	**4,886**	**1,212**
Incurred claims and other insurance service expenses		—	—	1,217	1,217
Losses and reversals of losses on onerous contracts		—	(5)	—	(5)
Investment components and premium refunds		(3,669)	—	3,669	—
Insurance service result		**(4,978)**	**(5)**	**4,886**	**(97)**
Net finance expenses from insurance contracts	4	(401)	—	—	(401)
Total changes in the income statement		**(5,379)**	**(5)**	**4,886**	**(498)**
Other insurance service expenses paid		—	—	(9)	(9)
Amounts received / (paid) for reinsurance contracts issued		5,278	—	(4,877)	401
Insurance contract (asset) / liability at 31 December		**(462)**	**—**	**—**	**(462)**

Notes to the financial statements (continued)

2022	Note	Liabilities for remaining coverage: Excluding loss component £ million	Liabilities for remaining coverage: Loss component £ million	Liabilities for incurred claims £ million	Restated[1] Total £ million
Insurance contract (asset) / liability at 1 January		(800)	—	—	(800)
Insurance revenue	3	(1,310)	—	—	(1,310)
Contracts under the fully retrospective transition approach		(1,310)	—	—	(1,310)
Insurance service expenses	5	(2,906)	5	3,949	1,048
Incurred claims and other insurance service expenses		—	—	1,043	1,043
Losses and reversals of losses on onerous contracts		—	5	—	5
Investment components and premium refunds		(2,906)	—	2,906	—
Insurance service result		(4,216)	5	3,949	(262)
Net finance expenses from insurance contracts	4	638	—	—	638
Total changes in the income statement		(3,578)	5	3,949	376
Other insurance service expenses paid		(4)	—	(8)	(12)
Amounts received / (paid) for reinsurance contracts issued		4,021	—	(3,941)	80
Total cash flows		4,017	—	(3,949)	68
Insurance contract (asset) / liability at 31 December		(361)	5	—	(356)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The following table shows life risk insurance contracts analysed by measurement component:

2023	Note	Estimates of present value of future cash flows £ million	Risk adjustment for non-financial risk £ million	CSM Total £ million	Total £ million
Insurance contract (asset) / liability at 1 January		**(3,023)**	**364**	**2,303**	**(356)**
Changes that relate to current services		**207**	**(32)**	**(267)**	**(92)**
CSM recognised for services provided		—	—	(267)	(267)
Change in risk adjustment for risk expired		—	(32)	—	(32)
Experience adjustment		207	—	—	207
Changes that relate to future services		**(196)**	**55**	**136**	**(5)**
Contracts initially recognised in the year		(186)	31	155	—
Changes in estimates that adjust the CSM		(10)	24	(14)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts		—	—	(5)	(5)
Changes that relate to past services		—	—	—	—
Adjustments to liabilities for incurred claims		—	—	—	—
Insurance service result		**11**	**23**	**(131)**	**(97)**
Net finance expenses from insurance contracts	4	(493)	41	51	(401)
Total changes in the income statement		**(482)**	**64**	**(80)**	**(498)**
Other insurance service expenses paid		(7)	—	—	(7)
Amounts received / (paid) for reinsurance contracts issued		399	—	—	399
Insurance contract (asset) / liability at 31 December		**(3,113)**	**428**	**2,223**	**(462)**

Notes to the financial statements (continued)

2022	Note	Estimates of present value of future cash flows £ million	Risk adjustment for non-financial risk £ million	CSM Total £ million	Restated [1] Total £ million
Insurance contract (asset) / liability at 1 January		(3,613)	575	2,238	(800)
Changes that relate to current services		4	(45)	(226)	(267)
CSM recognised for services provided		—	—	(226)	(226)
Change in risk adjustment for risk expired		—	(45)	—	(45)
Experience adjustment		4	—	—	4
Changes that relate to future services		(238)	(5)	248	5
Contracts initially recognised in the year		(127)	11	116	—
Changes in estimates that adjust the CSM		(111)	(16)	127	—
Changes in estimates that result in losses and reversal of losses on onerous contracts		—	—	5	5
Changes that relate to past services		—	—	—	—
Insurance service result		(234)	(50)	22	(262)
Net finance expenses from insurance contracts	4	756	(161)	43	638
Total changes in the income statement		522	(211)	65	376
Other insurance service expenses paid		(12)	—	—	(12)
Amounts received / (paid) for reinsurance contracts issued		80	—	—	80
Total cash flows		68	—	—	68
Insurance contract (asset) / liability at 31 December		(3,023)	364	2,303	(356)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Key changes that impact the income statement include the release of CSM for services provided and the release of risk adjustment for expired risks.

Changes that relate to future service include:

- New contracts initially recognised in the year which give rise to a CSM liability representing unearned future profit on service yet to be provided;
- Experience variances and assumption changes on profitable contracts that impact the expected fulfilment cash flows and adjust the CSM liability; and
- Recognition of new onerous contracts and experience variances or assumption changes on onerous contracts impacting the income statement immediately.

At 31 December 2023 the changes in estimates that adjust the CSM resulting in a decrease of £14 million (*31 December 2022: £127 million increase*) include the effect of both experience variances and assumption changes on expected future cash flows. Assumption changes included in the changes in estimates that increase the CSM at 31 December 2023 of £67 million (*31 December 2022: £78 million*) relate primarily to spouses of BPA scheme members and changes to longevity assumptions offset by expense assumptions adjusted for known changes in contractual arrangements with external suppliers.

The impact of change in mortality and morbidity assumptions for assurance contracts for both 2023 and 2022 relates mainly to a review of recent experience.

Longevity assumption changes during this year are valued at £212 million reduction in fulfilment cashflows (valued at discount rates locked in at the time of business inception). The three largest contributors (in order of importance) are:

- Introduction of an explicit adjustment for post-pandemic mortality;
- Updates to the mortality improvement model moving onto the latest CMI_2022 model from CMI_2021, including the impact of revised population data; and
- Improved assumptions for the proportion of BPA customers that are married.

Longevity assumptions changes in 2022 were valued at £142 million reduction in fulfilment cashflows (valued at discount rates locked in at the time of business inception).

The three largest contributors (in order of importance) were:

- Updates to the rate of mortality improvements for a change to the tapering of longevity improvements at the oldest ages from between ages 90 to 115 to between ages 85 to 110
- Updates to mortality improvements moving onto the latest CMI_2021 model from CMI_2019
- Updates to base mortality to reflect methodology and process refinements on BPA business.

Notes to the financial statements (continued)

(ii) Non-life

Insurance contracts

The following table shows insurance contracts analysed by remaining coverage and incurred claims:

		Liabilities for remaining coverage		Liabilities for incurred claims				
2023		**Excluding loss component**	**Loss component**	**Contracts not under the PAA**	**Estimates of present value of future cash flows**	**Risk adjustment for non-financial risk**	**Total liabilities for incurred claims**	**Total**
	Note	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Insurance contract (asset) / liability at 1 January		**(1,185)**	**144**	**75**	**367**	**129**	**571**	**(470)**
Insurance revenue	3	(3,877)	—	—	—	—	—	(3,877)
Insurance service expenses	5	—	(21)	225	3,356	7	3,588	3,567
Incurred claims and other insurance service expenses		—	(53)	225	3,273	71	3,569	3,516
Losses and reversals of losses on onerous contracts		—	32	—	—	—	—	32
Adjustments to liabilities for incurred claims		—	—	—	83	(64)	19	19
Insurance service result		**(3,877)**	**(21)**	**225**	**3,356**	**7**	**3,588**	**(310)**
Net finance expenses from insurance contracts	4	40	1	(37)	(105)	(1)	(143)	(102)
Total changes in the income statement		**(3,837)**	**(20)**	**188**	**3,251**	**6**	**3,445**	**(412)**
Amounts received / (paid) for reinsurance contracts issued		4,006	—	(224)	(3,054)	—	(3,278)	728
Insurance contract (asset) / liability at 31 December		**(1,016)**	**124**	**39**	**564**	**135**	**738**	**(154)**

		Liabilities for remaining coverage		Liabilities for incurred claims				Restated [1]
2022		Excluding loss component	Loss component	Contracts not under the PAA	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total liabilities for incurred claims	Total
	Note	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Insurance contract (asset) / liability at 1 January		(745)	74	24	337	109	470	(201)
Insurance revenue	3	(3,750)	—	—	—	—	—	(3,750)
Insurance service expenses	5	—	66	365	2,985	(2)	3,348	3,414
Incurred claims and other insurance service expenses		—	(43)	365	3,047	48	3,460	3,417
Losses and reversals of losses on onerous contracts		—	109	—	—	—	—	109
Adjustments to liabilities for incurred claims		—	—	—	(62)	(50)	(112)	(112)
Insurance service result		(3,750)	66	365	2,985	(2)	3,348	(336)
Net finance expenses from insurance contracts	4	(144)	4	51	195	22	268	128
Total changes in the income statement		(3,894)	70	416	3,180	20	3,616	(208)
Amounts received / (paid) for reinsurance contracts issued		3,454	—	(365)	(3,150)	—	(3,515)	(61)
Insurance contract (asset) / liability at 31 December		(1,185)	144	75	367	129	571	(470)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The non-life loss component recognised is attributable to the adverse development coverage provided by the Company to its cedants on claims incurred prior to the treaty inception date measured under GMM. The loss component is remeasured to allow for both the effect of changes in the ultimate cost of claims and changes in the timing of expected cashflows. During 2023 the loss component decreased by £20 million, as a result of unwind and favourable changes in ultimate claim costs partially offset by changes in the timing of expected cashflows. In 2022 the loss component increased by £70 million mainly due to differences in the timing of expected cashflows.

Notes to the financial statements (continued)

The following table shows insurance contracts analysed by measurement component (contracts measured under the GMM):

	2023				Restated[1] 2022			
	Estimates of present value of future cash flows	**Risk adjustment for non-financial risk**	**CSM Total**	**Total**	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM Total	Total
	£ million	**£ million**	**£ million**	**£ million**	£ million	£ million	£ million	£ million
Insurance contract (asset) / liability at 1 January	**(109)**	**50**	**—**	**(59)**	(50)	30	—	(20)
Changes that relate to current services	**(100)**	**(15)**	**—**	**(115)**	(146)	(21)	—	(167)
Change in risk adjustment for risk expired	—	(15)	—	(15)	—	(21)	—	(21)
Experience adjustment	(100)	—	—	(100)	(146)	—	—	(146)
Changes that relate to future services	**41**	**(3)**	**—**	**38**	67	49	—	116
Contracts initially recognised in the year	—	—	—	—	(87)	39	48	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	41	(3)	—	38	154	10	(48)	116
Changes that relate to past services	—	—	—	—	—	—	—	—
Net finance expenses from insurance contracts	18	3	—	21	(78)	(8)	—	(86)
Total changes in the income statement	**(38)**	**(16)**	**—**	**(54)**	(157)	20	—	(137)
Amounts received / (paid) for reinsurance contracts issued	101	—	—	101	98	—	—	98
Insurance contract (asset) / liability at 31 December	**(46)**	**34**	**—**	**(12)**	(109)	50	—	(59)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

17.2 Effect of contracts initially recognised in the year

			2023			Restated[1] 2022
	Life risk	**Non-life**	**Total**	Life risk	Non-life	Total
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Expected premiums from new insurance contracts	**1,752**	**—**	**1,752**	1,365	950	2,315

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The following tables summarise the effect on the measurement components arising from the initial recognition of insurance contracts not measured under the PAA in the year:

(i) Life risk

Insurance contracts

			2023			Restated[1] 2022
	Profitable contracts initially recognised in the year	**Onerous contracts initially recognised in the year**	**Total**	Profitable contracts initially recognised in the year	Onerous contracts initially recognised in the year	Total
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Estimates of present value of cash outflows	**1,566**	**—**	**1,566**	1,238	—	1,238
Estimates of present value of cash inflows	**(1,752)**	**—**	**(1,752)**	(1,365)	—	(1,365)
Risk adjustment for non-financial risk	**31**	**—**	**31**	11	—	11
Contractual Service Margin	**155**	**—**	**155**	116	—	116
Losses recognised on initial recognition	**—**	**—**	**—**	—	—	—

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

(ii) Non-life

Insurance contracts

			2023			Restated[1] 2022
	Profitable contracts initially recognised in the year	**Onerous contracts initially recognised in the year**	**Total**	Profitable contracts initially recognised in the year	Onerous contracts initially recognised in the year	Total
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Estimates of present value of cash outflows	—	—	—	863	—	863
Estimates of present value of cash inflows	—	—	—	(950)	—	(950)
Risk adjustment for non-financial risk	—	—	—	39	—	39
Contractual service margin	—	—	—	48	—	48
Losses recognised on initial recognition	—	—	—	—	—	—

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

There were no non-life insurance contracts initially recognised in 2023 measured under the general measurement model. In 2022 the Company amended its reinsurance arrangements with CGI to increase the portion of reinsurance of its insurance liabilities from 25% to 50%, the additional 25% of insurance liabilities at treaty amendment date were measured under the general measurement model.

17.3 Contractual Service Margin

The following table sets out when the Company expects to recognise the remaining CSM in profit or loss after the reporting date for contracts measured under the GMM:

		1 year or less	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**5 to 10 years**	**11-15 years**	**16-20 years**	**Greater than 20 years**	**Total**
	Note	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
31 December 2023											
Insurance contracts											
Life risk		**224**	**179**	**155**	**145**	**138**	**515**	**386**	**231**	**250**	**2,223**
		224	**179**	**155**	**145**	**138**	**515**	**386**	**231**	**250**	**2,223**
31 December 2022 (restated[1])											
Insurance contracts											
Life risk		212	198	185	171	158	613	378	248	140	2,303
		212	198	185	171	158	613	378	248	140	2,303

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The CSM on the Company's non-life business measured under GMM was £nil at 31 December 2023 (31 December 2022: £nil).

17.4 Non-life claims development

The table below illustrates how estimates of cumulative claims for the Company's non-life segment have developed over time. Each table shows how the Company's estimates of total claims for each accident year have developed over time and reconciles the cumulative claims to the amount included in the statement of financial position. Balances have been translated at the exchange rates prevailing at the reporting date.

31 December 2023	All prior years £ million	2015 £ million	2016 £ million	2017 £ million	2018 £ million	2019 £ million	2020 £ million	2021 £ million	2022 £ million	2023 £ million	Total £ million
Accident Year											
Cumulative claim payments											
At end of accident year	(156)	(82)	(1,530)	(871)	(952)	(1,381)	(950)	(903)	(1,350)	(1,718)	
One year later	(223)	(162)	(2,232)	(1,181)	(1,384)	(1,887)	(1,369)	(1,443)	(2,007)		
Two years later	(383)	(162)	(2,640)	(1,354)	(1,482)	(2,111)	(1,562)	(1,619)			
Three years later	(393)	(162)	(3,067)	(1,433)	(1,560)	(2,467)	(1,673)				
Four years later	(394)	(162)	(3,236)	(1,493)	(1,652)	(2,568)					
Five years later	(395)	(162)	(3,337)	(1,539)	(1,699)						
Six years later	(398)	(162)	(3,400)	(1,556)							
Seven years later	(398)	(162)	(3,442)								
Eight years later	(398)	(162)									
Nine years and over later	(398)										

31 December 2023	All prior years £ million	2015 £ million	2016 £ million	2017 £ million	2018 £ million	2019 £ million	2020 £ million	2021 £ million	2022 £ million	2023 £ million	Total £ million
Estimate of ultimate claims											
At end of accident year	441	153	3,937	1,592	1,658	2,916	1,972	1,966	2,867	3,459	
One year later	397	162	3,891	1,536	1,769	2,904	1,974	2,243	2,866		
Two years later	408	162	3,741	1,614	1,803	2,930	2,169	2,196			
Three years later	399	162	3,808	1,620	1,808	3,330	2,167				
Four years later	398	162	3,797	1,610	1,801	3,260					
Five years later	398	162	3,853	1,608	1,784						
Six years later	398	162	3,897	1,623							
Seven years later	398	162	3,848								
Eight years later	398	162									
Nine years and over later	398										
Estimate of ultimate claims	398	162	3,848	1,623	1,784	3,260	2,167	2,196	2,866	3,459	21,763
Cumulative payments	(398)	(162)	(3,442)	(1,556)	(1,699)	(2,568)	(1,673)	(1,619)	(2,007)	(1,718)	(16,842)
Total undiscounted reserves	—	—	**406**	**67**	**85**	**692**	**494**	**577**	**859**	**1,741**	**4,921**
Effect of discounting	—	—	(156)	(6)	(7)	(62)	(32)	(50)	(80)	(127)	(520)
Discounted claims reserves	—	—	250	61	78	630	462	527	779	1,614	4,401
Risk adjustment for non-financial risk											135
Fulfilment cash flow differences (including deposits with cedants)											(3,011)
Adverse claims development coverage presented in liabilities for remaining coverage											(787)
Amounts Included in Liability for Incurred Claims											**738**

In the loss development table shown above, the cumulative claim payments and estimates of ultimate claims for each accident year are translated into sterling at the exchange rates that applied at the end of the development year.

17.5 Significant judgements and estimates

This note gives details of the significant judgements made in applying IFRS 17, explaining the inputs, assumptions, methods and estimation techniques used to measure the Company's reinsurance contracts issued as described within the Strategic report. Accounting policy (B) sets out the critical accounting judgements and the material accounting estimates that are considered particularly susceptible to changes in estimates and assumptions. This note provides further detail of how these are applied in the context of IFRS 17.

(i) Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment (discount rate) to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment

The Company's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. A deterministic approach, producing point estimates based on best estimate assumptions, is used for valuing most of the Company's business.

Estimates of future cash flows

In estimating future cash flows, the Company incorporates, 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 reflect the Company's view of current conditions at the reporting date, using market variables consistent with observable market prices, where applicable.

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted. For cashflows which are contractually linked to an index of prices or wages, the Company derives an assumption for future RPI from RPI swap curves, and adjusts this to derive future inflation assumptions for other price and wage indices.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Contract boundaries

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Company's substantive rights and obligations under the contract. For the Company long contract boundaries are applied with the exception of Group Protection policies.

The Company's inwards reinsurance contracts include unilateral rights for the Company and its cedants to terminate the cession of new business by giving notice to the other party based upon notice periods defined by the treaty. On initial recognition, the cash flows within the contract boundary are determined to be those arising from underlying contracts in issue and those that the Company's cedants' expect to issue under the reinsurance contract within the notice period. Risks attaching beyond the end of the initial termination notice period are considered cash flows of new contracts and are recognised separately from the initial contract.

Reinsurance contracts issued to the Company's non-life cedants include coverage of the adverse development on claims incurred prior to the contract initial inception date. The contract boundary of these contracts is based upon the best estimate of when all obligations associated with the liabilities will be extinguished.

Life contracts

Death and other claim benefits

Death and other claim benefits are projected using decrements appropriate to each class of business, including persistency, mortality and morbidity.

Mortality assumptions are set with regard to recent Company experience and general industry trends. Local, generally accepted, published standard mortality tables are used for different categories of business as appropriate. The mortality tables used in the valuation are summarised below:

	2023	2022
UK business		
Life protection	**AM00/AF00 or TM16/TF16 adjusted for smoker status and age/sex specific factors with allowance for future mortality**	AM00/AF00 or TM16/TF16 adjusted for smoker status and age/sex specific factors with allowance for future mortality
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted with allowance for improvements**	AM00/AF00 adjusted with allowance for improvements

Annuity payments

The conventional immediate and deferred annuity business is valued by discounting future benefit payments with an allowance for mortality, including future improvements in mortality. Mortality assumptions are set with regard to Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

	2023	2022
UK business		
Pensions business and general annuity business	**PMA16_IND/PFA16_IND or PMA16_IND_INT/PFA16_IND_INT plus allowance for future mortality improvement**	PMA16_IND/PFA16_IND or PMA16_IND_INT/ PFA16_IND_INT plus allowance for future mortality improvement
Bulk purchase annuities	**CV3 plus allowance for future mortality improvement**	CV3 plus allowance for future mortality improvement

For the largest portfolio of pensions annuity business, the underlying mortality assumptions, before risk adjustment, for males are 106.6% of PMA16_IND with base year 2016 (*2022 restated: 104.1% of PMA16_IND with base year 2016*) and for females the underlying mortality assumptions, before risk adjustment, are 101.3% of PFA16_IND with base year 2016 (*2022 restated: 100.3% of PFA16_IND with base year 2016*). The base rates on some contracts are adjusted for lifestyle, medical, and other factors.

Improvements are based on 'CMI_2022 (S=7.25) Advanced with adjustments' (*2022 restated: 'CMI_2021 (S=7.25) Advanced with adjustments'*) with zero weight on 2020,2021 and 2022 data within the model. Instead of placing weight on 2022 data within the CMI improvements model, a separate adjustment is made to reflect the impact that the drivers of excess mortality in 2022 and 2023 are expected to have in future years. We use a long-term improvement rate of 1.5% for both males and females (*2022 restated: 1.5% for both male and females*). An allowance has been made to adjust for greater mortality improvements in the annuitant population relative to the general population on which CMI_2022 is based, using a parameter of 0.15% for males and 0.20% for females, tapering to zero between ages 90 and 110 (for 2022 the same approach was taken with respect to CMI_2021). Long-term improvement rates are set to taper to zero between ages 85 and 110 (*2022 restated: between 85 and 110*).

Expenses

Maintenance expense assumptions for life business are generally expressed as a per policy charge set with regards to an allocation of current year expense levels by category of business, adjusted for known changes in contractual arrangements with external suppliers and using the policy counts for in-force business. The assumptions also include an allowance for future expense inflation over the lifetime of each contract, which is assumed to be in line with RPI. An additional liability is held if projected per policy expenses in future years are expected to exceed current assumptions. A further allowance is made for non-discretionary project costs that typically relate to mandatory requirements. Investment expense assumptions are generally expressed as a proportion of the assets backing the liabilities.

Non-life contracts

The Company establishes reserves for claim events that occurred before the valuation date, whether reported or not. When calculating claims costs, the Company takes into account estimated future recoveries from salvage and subrogation. Where non-life contracts are onerous, the measurement of the loss component includes an estimate of future claims that are expected to occur within the remaining coverage period.

The undiscounted cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome. The ultimate cost of outstanding claims includes provision for expenses associated with handling claims.

UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of AIL's latent claims which the Company reinsures. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees. The best estimate of the liabilities considers the latest available market information and studies and how these might impact the Company's liabilities.

Lump sums payable to bodily injury claimants

Lump sum payments in settlement of bodily injury claims are influenced by the Ogden discount rate among other factors. The Ogden discount rate is set by the Lord Chancellor and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes. The Lord Chancellor's next review of the Ogden discount rate is expected to begin by summer 2024 and its impact upon the valuation of claims has been estimated on a probability weighted basis which considers a range of possible outcomes from the review.

Discount rates

All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. For the risk-free yield curves, the Company generally uses the risk-free interest rate curves published by the PRA and EIOPA for regulatory reporting, which are based on swap rates and in the UK based on SONIA (Sterling Over Night Index Average). For business reinsured from Canada, the Company uses the Bank of Canada zero-coupon bond curve. Where necessary, yield curves are interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations.

The Company uses a bottom-up discount rate for all life and non-life insurance contracts except for annuities. A top-down discount rate is applied to annuities to reflect more appropriately the characteristics of the annuity liabilities. For other contracts where liabilities are subject to lapse risk or where cashflows depend on underlying asset performance (such as unit-linked), the characteristics of the liability can be reflected using the bottom-up method which requires the application of less judgement.

Under the top-down approach, the discount rate is determined from the yield implicit in the fair value of an appropriate reference portfolio of assets that reflects the characteristics of the liabilities. Adjustments are made for differences between the reference portfolio and liability cash flows, including an allowance for defaults which reflects the compensation a market participant would require for credit risk.

Notes to the financial statements (continued)

For the measurement of new annuity business at inception only, the discount rates are based on assets expected to be originated for new business at initial recognition of the contracts. On subsequent measurement of the fulfilment cash flows the reference portfolio is based on the assets held to match the portfolio of liabilities. For recently written contracts, an adjustment is made to liabilities where appropriate assets are yet to be sourced.

Under the bottom-up approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium').

For business reinsured from the UK, the illiquidity premium is determined as a percentage of the current spread over the risk-free yield on an index of covered bonds. For business reinsured from Canada, the illiquidity premium is determined with reference to a spread of bonds available on the market. The percentage applied reflects the liquidity characteristics of the liabilities including the propensity and ability of policyholders to lapse or surrender their contracts; for example, 100% for structured settlements where surrenders are not possible, and 0% for unit-linked contracts where policyholders can normally immediately surrender their contract for the unit value. An intermediate percentage is applied for other types of business. For business reinsured from Canada, a single illiquidity premium is selected given the limited duration differences and similar liquidity characteristics.

Locked-in discount rates applied to the CSM are blended market rates which are fixed once the relevant cohort is complete.

The tables below set out the yield curves used to discount the cash flows of insurance contracts for major currencies:

						2023						Restated[1] 2022
	1 year	5 years	10 years	15 years	20 years	40 years	1 year	5 years	10 years	15 years	20 years	40 years
Life contracts												
Immediate and deferred annuities												
GBP	**6.5 %**	**5.1 %**	**5.0 %**	**5.2 %**	**5.2 %**	**4.9 %**	6.1 %	5.7 %	5.3 %	5.2 %	5.1 %	4.7 %
Life protection contracts												
GBP	**5.1 %**	**3.7 %**	**3.6 %**	**3.7 %**	**3.8 %**	**3.5 %**	5.0 %	4.6 %	4.2 %	4.1 %	4.0 %	3.6 %
Unit-linked contracts												
GBP	**4.7 %**	**3.4 %**	**3.3 %**	**3.4 %**	**3.4 %**	**3.2 %**	4.5 %	4.1 %	3.7 %	3.6 %	3.5 %	3.2 %
Non-life contracts												
Structured settlements												
GBP	**5.4 %**	**4.0 %**	**3.9 %**	**4.0 %**	**4.1 %**	**3.8 %**	5.5 %	5.1 %	4.7 %	4.6 %	4.5 %	4.2 %
Latent claims												
GBP	**5.2 %**	**3.8 %**	**3.8 %**	**3.9 %**	**3.9 %**	**3.6 %**	5.2 %	4.8 %	4.5 %	4.4 %	4.3 %	3.9 %
Other general insurance claims												
GBP	**5.1 %**	**3.7 %**	**3.6 %**	**3.7 %**	**3.8 %**	**3.5 %**	5.0 %	4.6 %	4.2 %	4.1 %	4.0 %	3.7 %
EUR	**3.7 %**	**2.7 %**	**2.7 %**	**2.8 %**	**2.7 %**	**3.1 %**	3.4 %	3.3 %	3.3 %	3.2 %	3.0 %	3.0 %
CAD	**5.4 %**	**3.9 %**	**3.9 %**	**3.9 %**	**3.9 %**	**3.8 %**	5.6 %	4.4 %	4.3 %	4.3 %	4.4 %	4.3 %

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The yields used are after a reduction for risk, but before allowance for investment expenses (which are included in the expected future cash flows).

For annuity business, the allowance for risk comprises long-term assumptions for defaults or, in the case of equity release assets, expected losses arising from the No-Negative-Equity Guarantee. These allowances vary by asset category and for some asset classes by rating.

The risk allowances made for corporate bonds (including overseas government bonds and structured finance assets), mortgages (including healthcare mortgages, commercial mortgages and infrastructure assets), and equity release equated to 36bps, 25bps, and 89bps respectively at 31 December 2023 (*2022 restated: 36bps, 26bps, and 83bps respectively*).

Risk adjustments for non-financial risk

Risk adjustments for non-financial risk reflect the compensation required by the Company to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. The calculation of the risk adjustment is calibrated with reference to the Group's pricing and capital allocation framework. The calibration leverages the Solvency II view of non-hedgeable risk, considering a lifetime view, but excludes those financial risks which are included within the Solvency II risk margin. The risk adjustment includes diversification between portfolios, financial and non-financial risks, using correlation matrix techniques.

For life business, the risk adjustment is allocated to the individual contract level using provisions for adverse deviation (PADs) applied to the best estimate non-financial assumptions.

For non-life business, the risk adjustment is allocated to groups of contract level based upon their capital intensity, with a greater amount allocated to contract groups with greater valuation uncertainty.

The Company estimates the risk adjustment's corresponding confidence level by comparing the combined value of best estimate cash flows and risk adjustment with a distribution of possible outcomes on an ultimate horizon. For life contracts the confidence interval, net of reinsurance corresponds to the 68th percentile (2022: 70th percentile), for non-life contracts it corresponds to the 77th percentile (2022: 74th percentile). The percentiles disclosed benefit from the diverse profile of business ceded to the Company, but not from diversification between the Company's Life and non-Life business and are estimates made as of 31 December, which could reasonably change within 12 months. Factors which could cause them to change include variations in the Company's risk profile or quantification thereof, for example as might arise from economic factors such as changes in risk-free discount rates or changes in the composition of insurance liabilities. The movements in the value of the net risk adjustment required to move the confidence level by 2.5 percentage points can be seen in the table below. The figures assume that there are no changes in estimate of future cashflows when in reality a lot of factors which influence the risk adjustment calibration will also impact the estimate of future cashflows.

	2023	2022
	£ million	£ million
Life business		
Movement in net risk adjustment required for 2.5pp confidence level increase	**35**	30
Movement in net risk adjustment required for 2.5pp confidence level reduction	**(35)**	(30)
Non-Life business		
Movement in net risk adjustment required for 2.5pp confidence level increase	**23**	24
Movement in net risk adjustment required for 2.5pp confidence level reduction	**(21)**	(23)

For Life risk contracts, this is the confidence level that the liabilities recognised and associated reinsurance balances, excluding CSM, are sufficient to cover the ultimate cost of in-force insurance liabilities applying period end assumptions. For non-Life contracts, this represents the confidence level that net claims liabilities recognised are sufficient to cover the ultimate cost of claims. Net non-Life claims liabilities include the liability for incurred claims, asset for incurred claims and the asset for remaining coverage on reinsurance contracts held that reinsure against adverse development on incurred claims.

(ii) Contractual Service Margin

Determination of coverage units

The amount of CSM recognised in profit or loss to reflect services provided in each year is determined by considering, for each group of contracts, coverage units that reflect the quantity of the benefits provided in each period and the expected coverage period. The coverage units are reviewed and updated at each reporting date.

The coverage units used by major product lines are:

Product line	**Coverage units**
Immediate annuity	Annuity and associated expense outgo
Deferred annuity	Annuity outgo (once vested) and associated expense outgo (throughout)
Individual and Group Protection	Sum assured and associated expenses outgo
Individual and Group Income Protection	Benefit amount payable and associated expenses outgo
Unit linked insurance	Sum assured at risk and associated expenses outgo
General insurance	Discounted expected claims settlement on contracts reinsuring the development of claims incurred prior to the contract inception date

For the Company's life business, the underlying coverage units weighted by overall contribution to the CSM are used to produce a single coverage unit release profile per cohort.

(iii) Investment components

The Company identifies the investment component of a contract in line with its cedants by determining the amount that its cedant would be required to repay to the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs or the contract matures or is terminated without an insured event occurring. Investment components and rights to withdraw are both excluded from insurance revenue and insurance service expenses, and variances between actual and expected cash flows adjust the CSM.

Immediate annuities with a guarantee period contain a non-distinct investment component equal to the value of those guaranteed payments.

Deferred annuities include a non-distinct investment component if all of the following features are present:

- transfer value in the deferral period;
- death benefit in the deferral period; and
- guarantee period once the annuity is in payment.

The investment component excluded from insurance revenue and insurance service expenses is determined as the lower of the present value of each of those possible payments. Any amounts in excess of the investment component, or any payments made under those features that do not qualify as an investment component, are treated as rights to withdraw. In either case, transfer values paid during the deferral period are presented as premium refunds.

18. Financial guarantees and options

This note details the financial guarantees and options inherent in some of our insurance contracts.

As a part of their operating activities, UK L&P have provided guarantees and options, including investment return guarantees, in respect of certain long-term insurance products.

Notes to the financial statements (continued)

(a) UK non-profit business

The material guarantees and options relating to non-profit business are:

(i) Guaranteed annuity options

UK L&P's non-profit funds have written contracts which contain guaranteed annuity rate options ("GAOs"), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. Provisions for these guarantees do not materially differ from a provision based on a market-consistent stochastic model, and amount to £7 million at 31 December 2023 *(2022 restated: £9 million).*

(ii) Guaranteed unit price on certain products

Certain pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

19. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable and liabilities payable in more than one year are £nil and £233 million (2022: £nil and £nil), respectively.

(b) Deferred tax

(i) The balance at 31 December comprise:

	2023 £ million	Restated[1] 2022 £ million
Deferred tax assets	**112**	22
Deferred tax liabilities	**—**	—
Net deferred tax asset/(liability)	**112**	22

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

(ii) The net deferred tax asset/(liability) arises on the following items:

	2023 £ million	Restated[1] 2022 £ million
Long term business technical provisions and other insurance items	**112**	22
Net deferred tax asset	**112**	22

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

(iii) The movement in the net deferred tax asset was as follows:

	2023 £ million	Restated[1] 2022 £ million
Net deferred tax asset/(liability) at 1 January	**22**	—
Adjustment at 1 January for adoption of IFRS 17	**—**	(4)
Balance at 1 January restated	**22**	(4)
Amounts credited to the income statement	**90**	25
Other movements	**—**	1
Net deferred tax asset/(liability) at 31 December	**112**	22

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Deferred tax assets in respect of UK tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. In assessing future profitability, the directors have relied on board approved business plans and profit forecasts for up to 5 years, and the Group history of taxable profits in the UK. Deferred tax assets in respect of the reduction in net assets on the adoption of IFRS 17 are recognised against the expected future profits from the unwind of CSM.

Notes to the financial statements (continued)

20. Payables and other financial liabilities

The balances at 31 December comprise:

	2023 £ million	2022 £ million
Derivative financial liabilities	—	52
Amounts due to other Aviva Group Companies	2	1
Other financial liabilities	—	12
Total as at 31 December	2	65
Expected to be settled within one year	2	59
Expected to be settled in more than one year	—	6
Total as at 31 December	2	65

21. Other liabilities

	2023 £ million	2022 £ million
Other liabilities	—	54
Total as at 31 December	—	54
Expected to be settled within one year	—	54
Total as at 31 December	—	54

Other liabilities as at 31 December 2022 included £54 million payable in respect of the estimate of the termination amount due to Aéma Groupe following the termination of the reinsurance arrangement with FGI during 2021. This amount was settled in full during 2023.

22. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 17 gives details of the methodology and assumptions used in determining the long-term business provisions and the estimation techniques used in determining the general insurance business outstanding claims provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a risk adjustment reflecting the uncertainty associated with these liabilities. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Business interruption

There continues to be a significant degree of uncertainty in relation to business interruption claims arising from COVID-19 and on-going test case litigation. On 17 October 2022, the High Court handed down its judgment on the preliminary issues trial of Stonegate Pub Co Ltd vs MS Amlin Corp Member Ltd (and others) and related cases. Aviva was not a party to the cases but is affected by the final outcome of these cases. The High Court ruled in favour of the parties on different issues, and all parties initially appealed the majority of the preliminary decisions made by Mr Justice Butcher. Whilst the Greggs and Stonegate actions settled after the appeals on confidential terms the Court of Appeal heard the remaining Various Eateries v Allianz appeals and on 16 January 2024 handed down judgment dismissing both parties' appeals. As a result the decisions of the High Court by Mr Justice Butcher stand.

In addition, CGI are party to a number of litigation proceedings challenging coverage under certain policies; however, they believe they have a strong argument that there is no pandemic coverage under these policies. In the opinion of management, adequate provisions have been established for such claims based on information available at the reporting date.

The Group purchases reinsurance protection on its property portfolio that includes coverage for business interruption and is collecting or seeking reinsurance recoveries of business interruption losses that are covered by reinsurance.

For further information on our general insurance risk management see note 25(e).

(c) Asbestos, pollution, social environmental hazards and sporting injuries

Through its reinsurance arrangements with AIL and CGI, the Company reinsures general insurance liability claims, and is exposed to actual or threatened litigation arising therefrom, including claims in respect of pollution, other environmental hazards and injuries suffered participating in sporting activities. Amongst these are claims in respect of asbestos production and handling in the United Kingdom and Canada.

Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place for the Company's cedants any additional costs arising are not likely to have a material impact on the financial position of the Company.

(d) Regulatory compliance

The FCA and the PRA regulate and authorise the Company's business and UK cedants' businesses. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

Notes to the financial statements (continued)

The FCA and PRA operate under the authority of the Bank of England. The Office of the Superintendent of Financial Institutions Canada ("OSFI") in Canada regulates CGI and is an independent agency of the Government of Canada having similar powers to the UK regulators.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(e) Other

In the course of conducting insurance business, the Company is exposed to liability claims and resulting from actual or threatened related litigation in its cedants. In the opinion of the directors, adequate provisions have been established for such claims.

23. Statement of cash flows

(a) The reconciliation of profit / (loss) before tax to the net cash generated from operating activities is:

	Note	2023 £ million	Restated[1] 2022 £ million
Profit/(loss) before tax		**990**	(113)
Adjustments for:			
Fair value (gains)/losses on:			
Derivative liabilities		**(1)**	(34)
Foreign currency exchange gains		**—**	—
		(1)	(34)
Changes in working capital:			
Increase in insurance liabilities and investment contracts		**209**	180
(Decrease)/increase in other assets and liabilities		**(62)**	21
		147	201
Total cash generated from operating activities		**1,136**	54

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2023 £ million	2022 £ million
Cash at bank and in hand	**—**	5
Cash equivalents	**1,717**	946
	1,717	951

24. Capital structure

The Company maintains an efficient capital structure consisting of equity from shareholder funds, consistent with the Company's overall risk profile and the regulatory requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis. The Company is required to measure and monitor its capital resources on a regulatory basis and to comply with the requirements established by the PRA. The Company measures its capital requirements under the Solvency II regime, using a Partial Internal Model ("PIM") which assesses the risks the Company is exposed to.

(b) Capital management

Capital is a primary consideration across a wide range of business activities, including treaty development, pricing, business planning and asset and liability management. The Company implements the Group's Capital Management Standard, which sets out minimum standards and guidelines over responsibility for capital management including considerations for capital management decisions and requirements for management information, capital monitoring, reporting, forecasting, planning and overall governance.

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;

(ii) maintain financial strength to support new business growth and satisfy the requirements of its regulators;

(iii) retain financial flexibility by maintaining strong liquidity; and

(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis and ensures that there are sufficient distributable reserves available before paying dividends.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II, as adopted and adapted by the PRA. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 25) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2023 the Company's own funds under Solvency II were £4,040 million *(2022: £3,664 million)*. The Company's own funds are sufficient to meets its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

	2023 £ million	Restated[1] 2022 £ million
Equity shareholder's funds	**2,414**	1,969
Total capital employed	**2,414**	1,969

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

25. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetites; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are grouped into the following principal risk categories: market & credit, liquidity, life insurance (including long-term health), general insurance (including short-term health), operational and strategic risk. Risks falling within these types may affect a number of outcomes including those relating to solvency, liquidity, profit, reputation and conduct.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

A regular top-down key risk identification and assessment process is led by the Risk function with input from management. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. The Risk function produces deep dive reports throughout the year which are shared with the Risk Committee.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as interest rates, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II solvency capital requirement ("SCR").

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. First line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The Risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk management framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis through its Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set for solvency, liquidity, climate, as well as operational and conduct risks.

The Company's position against risk appetites is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise. The oversight of risk and risk management is supported by the Company's Asset and Liability Committee (ALCO), which focuses on insurance business and financial risks; and Executive Risk Committee (ERC), which focuses on operational and reputational risks.

The Company's Risk Appetite Framework was refreshed during the year, with revised risk appetites, preferences and tolerances considered and approved by the Board or relevant delegated authority.

As a quota share reinsurer of business written within the Aviva group, much of the primary risk management activity occurs within the Company's cedants which are subject to the same group-wide risk policies and business standards. The reinsurance treaties require flows of management information to the Company to allow it to assess, monitor and manage its own risks.

Further information on the types and management of specific risk types is given in sections (b) to (h) below.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. Credit risk is taken so that the Company can provide the returns required to satisfy policyholder liabilities and to generate returns to the Company's shareholder. The Company is also exposed to third party credit quality changes through a range of activities including reinsurance and derivatives.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to debt securities, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties and inter-company loans and receivables.

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees and detailed reporting and monitoring of exposures against pre-established risk criteria.

The Company and its cedants did not experience a material increase in credit defaults in 2023, with pro-active management of the credit portfolio in a challenging macroeconomic environment. The Company continues to monitor closely any deterioration in the credit markets. The Company's capital position includes an allowance for the expected impacts from downgrades and defaults.

(i) Financial exposures to Group companies

The Company has significant financial exposure to amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group loan the level of collateral provided and the fact that these loans are not traded, the Company does not provide for fluctuations in market value caused by changing perceptions of the credit worthiness of such counterparties.

The Company's reinsurance arrangements include deposits held by its cedants of £70,773 million *(2022: £64,098 million)*, forming part of the fulfilment cashflows for determining insurance contract values as disclosed in note 17. These deposits arise from the quota share reinsurance agreements between the Company and other Group companies as disclosed in the related party transactions note 27. The deposits represent investments in a range of assets exposed to credit risk including government bonds, corporate bonds, commercial mortgages, equity release mortgages and bank deposits and the Company has indirect exposure to movements in the value of or defaults on these investments. The risks on these assets are managed in the first instance by the cedants through the application of a credit limit framework and credit risk triggers, adherence to the credit risk policy and related business standards and through oversight by the cedants' ALCOs. The Company is exposed to the risk of the cedants defaulting, although this is significantly reduced by the ability of the Company to offset the deposits with cedants against its obligation to make payments in respect of the cedant's insurance liabilities.

The Company also has a loan due from its parent, Aviva Group Holdings Limited, amounting to £200 million *(2022: £200 million)*, with further amounts due from both its parent and other Group companies amounting to £17 million *(2022: £11 million)*. The credit risk arising from Aviva Group Holdings Limited failing to meet all or part of its obligations is considered remote, as in its most recent audited financial statements dated 31 December 2022 Aviva Group Holdings Limited had net assets of £17,326 million. The loan to Aviva Group Holdings Limited is secured by a legal charge against the ordinary share capital of Aviva Insurance Limited, mitigating the risk of loss in the event of Aviva Group Holdings Limited defaulting. Due to the nature of the intra-group loan, and the fact that these loans are not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of its counterparty.

(ii) Financial exposures by credit ratings

Financial assets other than equities are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. The following table provides information regarding the aggregated credit risk exposure of the Company for assets with external credit ratings.

The Company's exposure to its cedants are included and presented net of its obligation to make payments in respect of the cedants' insurance liabilities and rated by reference to the cedants' own credit rating. "Not rated" assets capture assets not rated by external ratings agencies.

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. In assessing whether assets are impaired, due consideration is given to the factors outlined in accounting policy K.

Notes to the financial statements (continued)

31 December 2023	AAA	AA	A	BBB	Below BBB	Not-rated	2023 Carrying value £ million
Insurance contract assets	—	100%	—	—	—	—	616
Loan due and amounts receivable from parent company	—	—	—	—	—	100%	217
Total	—	—	—	—	—	—	833

31 December 2022	AAA	AA	A	BBB	Below BBB	Not-rated	Restated[1] 2022 Carrying value £ million
Derivative assets	—	—	100%	—	—	—	12
Insurance contract assets	—	100%	—	—	—	—	826
Loan due and amounts receivable from parent company	—	—	—	—	—	100%	211
Total	—	—	—	—	—	—	1,049

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The Company's maximum exposure to credit risk for financial assets and receivables not included within the contract boundary for insurance liabilities, without taking collateral into account, is represented by the carrying value of the financial investments, and receivables in the statement of financial position. The carrying values of these assets are disclosed in note 12 (Financial investments), note 13 (Receivables and other financial assets). The collateral in place for these exposures is disclosed in note 13 (Receivables and other financial assets).

(iii) Credit concentration risk

The Company is generally not exposed to significant concentrations of credit risk due to compliance with applicable regulations and the Group credit policy and limits framework, which limit investments in individual assets and asset classes. The Company monitors its credit concentrations and reports these to the ALCO and to the Board Risk Committee. Credit concentrations are also monitored by Group as part of the regular credit monitoring process and are reported to the Group ALCO.

(iv) Impairment of financial assets

Impairment is calculated using an expected credit loss model for financial assets measured at amortised cost and lease receivables, with reference to historical experience of losses adjusted for forward-looking information, as discussed in accounting policy K.

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates, equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risk as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The most material types of market risk that the Company is exposed to are described below.

(i) Interest rate risk

The Company is exposed to interest rate risk movements where there is a mismatch between the sensitivity to interest rates of the Company's assets (including deposits with cedants) and liabilities.

Interest rate risk also arises from the Company's long term loan due from its parent Aviva Group Holdings Limited (see note 27(a)(i)). The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease of interest income before tax of £2 million *(2022: increase / decrease of £2 million)*.

The Company manages and hedges the interest rate exposure through setting risk tolerance levels on a Solvency II cover ratio basis. Exposure to interest rate risk is monitored through several measures that include duration, capital modelling, sensitivity testing and stress and scenario testing.

Increasing interest rates as a result of the monetary policy response to inflationary pressures will positively impact the Company's regulatory capital cover ratio. This could be offset by the negative impact of credit downgrades, counterparty defaults, claims and maintenance expenses and lapse rates if high inflation persists and the economy stagnates or falls. Conversely, rising credit spreads will adversely impact IFRS shareholder's equity.

Sensitivity to changes in interest rates is given in section (g) 'risk and capital management' below.

(ii) Inflation risk

Inflation risk arises primarily from the Company's exposure to general insurance claims inflation, inflation linked benefits within the UK annuity portfolio and expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through capital modelling, sensitivity testing and stress and scenario testing. The Company's cedants typically manage inflation risk through asset-liability matching and hedging where appropriate in accordance with approved risk appetites.

Inflation risk is an ongoing concern and the Company is monitoring the potential impact on the profits and margins of the Company, and its counterparties which could impact their credit quality.

Notes to the financial statements (continued)

(iii) Currency risk

The Company has exposure to currency risk through its quota share reinsurance arrangements.

The Company's total equity deployment by currency is set out below:

31 December 2023	GBP £ million	EUR £ million	CAD £ million	Total £ million
Total equity	**2,340**	**(8)**	**82**	**2,414**

31 December 2022 - Restated[1]	GBP £ million	EUR £ million	CAD £ million	Total £ million
Total equity	1,858	(77)	188	1,969

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

A +/-10% change in GBP to EUR period-end foreign exchange rate would result in a change in total equity in the range of a £1 million positive impact (*2022: £7 million positive impact*) and a £1 million adverse impact *(2022: £9 million adverse impact)* respectively.

A +/-10% change in GBP to CAD period-end foreign exchange rate would result in a change in total equity in the range of a £7 million adverse impact (2022: £17 million adverse impact) and a £9 million positive impact *(2022: £21 million positive impact)* respectively.

There were no material sensitivities in the Company's total equity to other foreign exchange rates in 2023 and 2022.

(iv) Derivatives risk

Derivatives are used by our cedants for efficient investment management, risk hedging purposes, or to structure specific retail savings products. Any use of derivatives within AII is governed by policy guidelines agreed by the Board of directors and activity is overseen by Capital and Risk teams, which monitor exposure levels and approve large or complex transactions.

The Company applies strict requirements to the administration and valuation processes it uses and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(v) Correlation risk

The Company recognises that lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the internal capital model and in scenario analysis.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a liquidity risk policy and business standard. The Company has a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analysis

The following tables show the maturities of the Company's insurance liabilities and of the financial and reinsurance assets held to meet them. A maturity analysis of the contractual amounts payables, other financial liabilities and derivatives is given in notes 20, 21, and 26, respectively.

(i) Analysis of maturity of insurance contract balances

The following table shows the maturities of the Company's insurance contract assets at 31 December 2023 and 2022 analysed by estimated timing.

For unit-linked contracts almost all may be surrendered or transferred on demand. The earliest contractual maturity date is therefore 2023 statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability.

However, we expect surrenders, transfers and maturities to occur over many years, and therefore the table below reflects the expected cash flows for these contracts, rather than their contractual maturity date.

	Within 1 year £ million	One to Two years £ million	Two to Three years £ million	Three to Four years £ million	Four to Five years £ million	Five to 15 years £ million	Over 15 years £ million	2023 Total £ million
Insurance contract (assets)/ liabilities - life risk	(28)	(23)	(23)	(23)	(23)	(194)	(148)	**(462)**
Insurance contract (assets)/ liabilities - non-life	(154)	—	—	—	—	—	—	**(154)**
Total contract (assets) / liabilities	**(182)**	**(23)**	**(23)**	**(23)**	**(23)**	**(194)**	**(148)**	**(616)**

Notes to the financial statements (continued)

								Restated[1] 2022
	Within 1 year	One to Two years	Two to Three years	Three to Four years	Four to Five years	Five to 15 years	Over 15 years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Insurance contract (assets)/ liabilities - *life risk*	(21)	(18)	(18)	(18)	(18)	(149)	(114)	(356)
Insurance contract (assets)/ liabilities - non-life	(470)	—	—	—	—	—	—	(470)
Total contract (assets) / liabilities	(491)	(18)	(18)	(18)	(18)	(149)	(114)	(826)

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise.

				2023
	Total	**On demand or within 1 year**	**1-5 years**	**Over 5 years**
	£ million	**£ million**	**£ million**	**£ million**
Receivables and other financial assets	**217**	**—**	**17**	**200**
Cash and cash equivalents	**1,717**	**1,717**	**—**	**—**
	1,934	**1,717**	**17**	**200**

				2022
	Total	On demand or within 1 year	1-5 years	Over 5 years
	£ million	£ million	£ million	£ million
Receivables and other financial assets	265	61	4	200
Cash and cash equivalents	951	951	—	—
	1,216	1,012	4	200

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

(e) Insurance risk (General Insurance and Life)

The Company is exposed to a range of insurance risks as a result of the reinsurance accepted from cedants.

(i) General insurance risks

General insurance risks mainly arise from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The majority of the general insurance business reinsured by the Company is short-tail in nature such as motor, household and commercial property insurance. General insurance risk written within Aviva Group companies is subject to the general insurance risk policy and related business standards and agreed risk appetites and tolerances and underwriting authorities. External reinsurance is used by cedants to provide catastrophe cover, which in turn reduces the Company's exposure. Oversight of the Company's exposure is carried out in the ALCO and ERC.

There continues to be a significant degree of uncertainty in relation to business interruption claims arising from COVID-19 and on-going test case litigation. On 17 October 2022, the High Court handed down its judgment on the preliminary issues trial of Stonegate Pub Co Ltd vs MS Amlin Corp Member Ltd (and others) and related cases. Aviva was not a party to the cases but is affected by the final outcome of these cases. The High Court ruled in favour of the parties on different issues, and all parties initially appealed the majority of the preliminary decisions made by Mr Justice Butcher. Whilst the Greggs and Stonegate actions settled after the appeals on confidential terms the Court of Appeal heard the remaining Various Eateries v Allianz appeals and on 16 January 2024 handed down judgment dismissing both parties appeals. As a result the decisions of the High Court by Mr Justice Butcher stand.

The potential impacts of climate change also present uncertainty regarding future insurance risk experience and these are considered when setting assumptions for future experience.

In Canada, the Company's cedant is party to a number of litigation proceedings, including class actions that challenge coverage under their commercial property policies; however, the Company's cedant believes it has a strong argument that there is no pandemic coverage under these policies.

The Group purchases reinsurance protection on its property portfolio that includes coverage for business interruption and is collecting or seeking reinsurance recoveries of business interruption losses that are covered by reinsurance.

Notes to the financial statements (continued)

The Company's cedants do not have material underwriting exposure to Israel, Palestine, Russia or Ukraine, and do not conduct operations in the affected region.

The conflicts in Ukraine and Palestine and ongoing disruption to global supply chains have the potential to lead to heightened claims inflation in 2024 and may increase the uncertainty associated with the cost of settling general insurance claims. While the impacts of heightened claims inflation are being mitigated via new business pricing actions, the ability to price for inflation is dependent on market, competitor and customer behaviour. The time lag between premium earning and claims emergence means that some adverse impact on profitability is expected.

(ii) Life insurance risks

Life insurance risk can include mortality risk, morbidity risk, longevity risk, persistency risk and policyholder behaviour risk around take-up of insurance guarantees and options. The Company's principal life insurance risk is longevity risk arising from the reinsurance accepted from the annuity business within UK L&P.

Life insurance risk written within Aviva Group companies is subject to the life insurance risk policy and related business standards and agreed risk appetites and underwriting authorities. Oversight of the Company's exposure is carried out in the ALCO.

Longevity risk is carefully monitored against the latest available internal and external industry data and emerging trends. The annuity business within UK L&P uses reinsurance solutions to reduce the risks from longevity and continually monitors emerging market solutions to mitigate this risk further. Such reductions in this exposure would generally also reduce the Company's exposure.

Expense risk is primarily managed through the assessment of profitability and frequent monitoring of expense levels.

COVID-19 has continued to present uncertainty, but overall limited future impact is expected to UK L&P's business. The potential impacts of climate change also present uncertainty regarding future insurance risk experience and these are considered when setting assumptions for future experience.

Recent persistency experience has been generally resilient to cost-of-living pressures and has not shown significant deterioration in the short term. There remains some uncertainty about the potential for this to continue, which is being monitored closely. External factors that may impact future persistency experience include prolonged high inflation and interest rates, increased stock-market volatility and changes in legislation.

(f) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible. The Company continues to operate, validate and enhance its key operational controls. The Company maintains constructive relationships with its regulators and responds appropriately to developments in relation to key regulatory changes. The Operational Risk Appetite enables management and the Board to assess the overall quality of the operational risk environment relative to risk appetite and, when outside of appetite, requires clear and robust plans to be put in place in order to return to appetite.

To keep pace with the business, increasing regulatory expectations and the macroeconomic and geo-political environment, we continue to implement risk and control improvements throughout the Company and across all three lines of defence. Those improvements enable us to operate a stronger control environment, improve understanding of and accountabilities for risks, reduce the complexity of how the business thinks about and manages risks and create greater collaboration across the first and second lines of defence to provide higher quality advice and challenge.

Increasing geo-political tensions more generally have heightened the risk of cyber security attacks on the Group and its suppliers, with the potential to cause business service interruption and/or data or intellectual property theft. In response the Group continues to actively monitor the threat environment and enhance its IT infrastructure and cyber controls to identify, detect and prevent attacks. The Group's cyber defences are regularly tested using the Group's 'ethical hacking' team and the Group has engaged its suppliers to put in place all reasonable measures so that services to Aviva and its customers are protected.

Action is in hand to strengthen the control framework for the current risks Generative Artificial Intelligence presents as well as seek opportunities for process efficiency, better pricing and underwriting, product personalisation and improved customer service.

The Group continues to implement measures to improve the Group's operational resilience in response to new PRA and FCA operational resilience regulations (including outsourcing and third-party risk management) which will come into effect on 31 March 2025. This includes a programme of resilience and crisis response testing to ensure customer harm is minimised and the continued financial safety and soundness of the Group's business. Operational resilience disciplines and assessments have been used in response to global events, including: changes to the geo-political environment, financial market instability and the continuity of winter power supplies.

The Company is exposed to operational risks through the activities it controls and the locations within which it operates. In addition, the Company is exposed via its cedants through the reinsurance treaties in place. The cedants remain responsible for managing their operational risks in line with the group-wide operational risk framework including the risk and control self-assessment process, but this responsibility does not imply a limit to the Company's exposure. The Company's Operational Risk and Control Management Framework integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are identified and assessed against their agreed tolerance position by considering the effectiveness of controls aligned to them and the presence of any known or future weaknesses / loss events. Where residual risk falls outside tolerance management prioritise actions to return the risk to tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed.

Management identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(g) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of capital requirements and to manage its capital more efficiently. Risk-based capital models are used to support the quantification of risk under the Solvency II framework. Primarily, a risk-based capital model and scenario tests are used. Sensitivities of financial performance measurements to economic and operating experience are regularly produced to inform the Company's decision-making and planning processes and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

Notes to the financial statements (continued)

(i) General insurance and health

General insurance and health liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

(ii) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality and morbidity rates and persistency in connection with the in-force policies. Assumptions are best estimates based on historical and expected experience of the business. A number of key assumptions are disclosed in note 17.

(iii) Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health business and non-insurance business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged. Each test allows for any consequential impact on the asset and liability valuations.

Sensitivity factor	Description of sensitivity factor applied
Market risk variables	
Interest rate and investment return	The impact of a change in market interest rates by a 1.0% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets, also allowing for the consequential impact on liability valuations. Commercial mortgages and equity release mortgages are excluded, as their primary exposure is to property risk, and are therefore captured under the property sensitivity.
Equity market values	The impact of a 10% increase or decrease in equity market values.
Property market values	The impact of a 10% increase or decrease in property market values, including commercial mortgages and equity release mortgages.
Underwriting risk variables	
Expenses	The impact of an increase in maintenance expenses by 10%.
Lapses / surrenders	The impact of an increase in lapse or surrender rates by 10%.
Assurance mortality / morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 2%.
Annuitant mortality	The impact of a reduction in mortality rates for annuity contracts by 2%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

Market risk variables

The following table presents how a possible shift in market risk variables might impact on profit before tax and shareholder's equity after tax with the impact on the Company's insurance contract liabilities presented separately to the impact on the Company's deposits with cedants (investment assets):

	Insurance contracts balances				
31 December 2023 impact	**CSM**	**Profit or loss**	**Investment assets Profit or loss**	**Total profit before tax**	**Shareholder's equity after tax**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**
100 bps increase in interest rate	—	1,325	(1,640)	(315)	(236)
100 bps decrease in interest rate	—	(1,565)	1,943	378	284
50 bps increase in corporate bond spread	—	392	(613)	(221)	(165)
50 bps decrease in corporate bond spread	—	(494)	738	244	183
10% increase in market value of equity	—	136	(65)	71	53
10% decrease in market value of equity	—	(134)	65	(70)	(52)
10% increase in value of property	—	24	(2)	22	17
10% decrease in value of property	—	(24)	2	(22)	(17)

Notes to the financial statements (continued)

31 December 2022 impact	Insurance contracts balances CSM	Profit or loss	Investment assets Profit or loss	Total profit before tax	Shareholder's equity after tax
	£ million	£ million	£ million	£ million	£ million
100 bps increase in interest rate	—	1,271	(1,633)	(362)	(287)
100 bps decrease in interest rate	—	(1,519)	1,936	417	332
50 bps increase in corporate bond spread	—	378	(563)	(185)	(147)
50 bps decrease in corporate bond spread	—	(484)	692	208	166
10% increase in market value of equity	—	129	(57)	72	57
10% decrease in market value of equity	—	(127)	57	(71)	(56)
10% increase in value of property	—	21	1	22	17
10% decrease in value of property	—	(21)	(1)	(22)	(17)

Underwriting risk variables

The following table presents information on how reasonably possible changes in assumptions made by the Group with regard to underwriting risk variables impact insurance and reinsurance contract balances, profit before tax and shareholders' equity after tax. The affected underlying insurance contracts and related reinsurance contracts are measured under IFRS 17 and the impacts on fulfilment cash flows (FCF) and on the contractual service margin (CSM) are shown separately as these components are not fully symmetrically impacted by possible changes in assumptions.

31 December 2023 impact	**Insurance contracts balances** Estimates of present value of future cashflows	**CSM**	**Profit or loss before tax**	**Shareholder's equity after tax**
	£ million	**£ million**	**£ million**	**£ million**
Life insurance business				
10% increase in expenses	**(128)**	**153**	**25**	**19**
10% increase in lapse rates	**(59)**	**68**	**9**	**7**
2% increase in assurance mortality	**(10)**	**12**	**2**	**1**
2% decrease in annuitant mortality	**(57)**	**75**	**17**	**13**
General insurance and health business				
10% increase in expenses	**(101)**	**—**	**(101)**	**(76)**
5% increase in gross loss ratios	**(158)**	**—**	**(158)**	**(118)**

31 December 2022 impact	Insurance contracts balances Estimates of present value of future cashflows	CSM	Profit or loss before tax	Shareholder's equity after tax
	£ million	£ million	£ million	£ million
Life insurance business				
10% increase in expenses	(122)	142	20	16
10% increase in lapse rates	(59)	66	7	6
2% increase in assurance mortality	(13)	15	2	2
2% decrease in annuitant mortality	(86)	111	25	20
General insurance and health business				
10% increase in expenses	(99)	—	(99)	(75)
5% increase in gross loss ratios	(154)	—	(154)	(116)

For general insurance and health, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Limitations of sensitivity analysis

The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocations and taking other protective action.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risks that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty and the assumption that all parameters move in an identical fashion.

Specific examples:

- The sensitivity analysis assumes a parallel shift in interest rates at all terms. These results should not be used to calculate the impact of non-parallel yield movements.
- The sensitivity analysis assumes equivalent assumption changes across all markets i.e. UK and non-UK yield curves move by the same amounts, equity markets across the world rise or fall identically

Additionally, the movements observed by assets held by the Company will not be identical to market indices so caution is required when applying the sensitivities to observed index movements.

(h) Climate

The principal risks impacted by climate change are credit risk, market risk, general insurance risk, life insurance risk and operational risk.

The Board has approved the Company's climate risk appetite which sets the level of climate risk the Company is willing to accept. The Company's business plan includes climate targets aligned to the risk appetite consistent with the Group's ambition on climate. The Group and the Company have a very low appetite for climate related risks which could have a material negative impact upon its balance sheet and business model as well as the Group's customers and wider society.

The Group remains committed to supporting a low carbon economy that will improve the resilience of the economy, society and the financial system in line with the 2015 Paris Agreement target on climate change. In March 2021, the Group set an ambition to become a Net Zero carbon company by 2040 and is continuing to act to mitigate and manage the impact of climate change on its business. The Company calculates a Climate Value at Risk against the Intergovernmental Panel on Climate Change scenarios to assess the climate-related risks and opportunities under different emission projections and associated temperature pathways. A range of different financial indicators are used to assess the impact on the Company's investments and insurance liabilities.

The Company, through its cedants, actively seeks to limit the Company's exposure over time to the downside risks arising from the transition to a low carbon economy. The Company supports its cedants in seeking to identify and support solutions that will drive a transition to a low-carbon, climate resilient economy and limit their net exposure to physical risks. Further details on climate risk strategy and management by the Group can be found in the Aviva plc Climate-related Financial Disclosure Report 2023.

26. Derivative financial instruments

The Company uses over-the-counter derivative financial instruments, in line with its overall risk management strategy. The objectives include managing exposure to market risk on existing assets or liabilities.

In the tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Company.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under Swaps and Derivatives Association ("ISDA") master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Company has collateral agreements in place with the relevant counterparties. Refer to note 13 for further information on collateral and net credit risk of derivative instruments.

The Company's derivatives at 31 December 2023 and 2022 as shown in the table below. The derivatives held by the Company were unwound during 2023.

			2023			2022
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Credit contracts						
OTC						
Swaps	—	—	—	1,106	12	52
Total as at 31 December	—	—	—	1,106	12	52

Fair value assets of £nil million *(2022: £12 million)* are recognised as 'Derivative financial assets' in note 12.

Fair value liabilities of £nil million *(2022: £52 million)* are recognised as 'Derivative financial liabilities' in note 20.

The Company's derivative risk management policies are outlined in note 25.

The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2023	2022
	£ million	£ million
Within 1 year	—	(11)
Between one and two years	—	(11)
Between two and three years	—	(11)
	—	(33)

Collateral

Certain derivative contracts involve the pledging of cash collateral. The amounts of cash collateral receivable or repayable are included in note 13.

27. Related party transactions

(a) The Company had the following related party transactions

The Company has the following transactions with related parties which include parent companies and fellow subsidiaries in the normal course of business.

(i) Loan due from parent company

The loan accrues interest at 12-month Sterling Overnight Index Average ("SONIA") swap rate with a flat adjustment plus a step up amount plus a credit margin, with maturity in December 2042. The 12-month SONIA rate is reset annually and a non-zero step up amount applied from 1 January 2023. The credit margin is currently at 195 basis points and is reset every 5 years, with the last reset on 1 January 2023. This follows a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. As at 31 December 2023, the loan balance outstanding was £200 million *(2022: £200 million)*. This facility has been secured by a legal charge against the ordinary share capital of Aviva Insurance Limited.

	2023	2022
	£ million	£ million
Over 5 years	**200**	200
	200	200
Effective interest rate	**7.83%**	3.17%

(ii) Quota share reinsurance arrangements

The Company has quota share reinsurance arrangements with fellow Group subsidiaries as follows:

- Aviva Insurance Limited ("AIL") which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Life & Pensions UK Limited ("UK L&P") which transacts investment and long term insurance business, to reinsure 30% of the liabilities in its non-profit sub-fund ("NPSF"); and
- The seven companies comprising the general insurance business of Aviva Canada ("CGI"), to reinsure 50% of their insurance liabilities.

As part of these arrangements, funds in respect of premiums due from the cedants are withheld and this has been reflected in the statement of financial position within insurance contract assets (note 17).

The following tables show the amounts recognised in the Income statement and the Statement of financial position in respect of these arrangements:

	Note	**2023**	**2023**	Restated [1] 2022	Restated [1] 2022
		Life risk £ million	**Non-life £ million**	Life risk £ million	Non-life £ million
Insurance revenue	3	**1,309**	**3,877**	1,310	3,750
Insurance service expense	5	**(1,212)**	**(3,567)**	(1,048)	(3,414)
Net finance income/(expense) from insurance contracts	4	**401**	**102**	(638)	(128)
Total		**498**	**412**	(376)	208

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Statement of financial position	Note	**2023**	**2023**	Restated [1] 2022	Restated [1] 2022
		Life risk £ million	**Non-life £ million**	Life risk £ million	Non-life £ million
Deposits with cedants included in insurance contract balances		**63,993**	**6,780**	57,592	6,506
Insurance contract balances excluding deposits with cedants		**(63,531)**	**(6,626)**	(57,236)	(6,036)
Total insurance contract assets	17	**462**	**154**	356	470

1. The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

(iii) Other transactions

The Company receives interest income from, and pays dividends to, its parent company in the normal course of business. These activities are reflected in the tables below.

Services provided to related parties

		2023		2022
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£ million	**£ million**	£ million	£ million
Immediate Parent	**17**	**17**	7	11
Other Aviva Group companies	**—**	**—**	—	—
	17	**17**	7	11

The interest receivable from the Company's immediate parent of £17 million *(2022: £11 million)* relates to interest on a loan of £200 million *(2020: £200 million)*, as explained in note 27(a)(i). The related party receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

Services provided and expenses recharged by related parties

		2023		2022
	Services provided/ expenses recharged £ million	**Payable at year end £ million**	Services provided/ expenses recharged £ million	Payable at year end £ million
Other Aviva Group companies	**24**	**(2)**	15	1
	24	**(2)**	15	1

Services provided include £24 million *(2022: £15 million)* inter company management fees payable to fellow subsidiaries of the Aviva Group. Expenses incurred includes £23 million (*2022: £14 million*) relating to staff, facilities and other service charges from Aviva Central Services UK Limited. The remaining £1 million for 2023 *(2022: £1 million)* relates to investment management fees charged to the Company by Aviva Investors Global Services Limited, arising from the management of the Company's investments. The related party payables are not secured and will be settled in accordance with normal credit terms.

Other related party transactions

One of the Company's directors acts as non-executive director of Reclaim Fund Ltd, a Company that collects dormant assets from the financial services industry and distributes any surplus funds to The National Lottery Community Fund for onward distribution to good causes across the UK. In total, over 40 UK financial services companies participate in the Dormant Assets Scheme, including Aviva. Over 2023, affiliated Aviva entities have contributed £17m to the Reclaim Fund Ltd.

Dividends paid

Interim ordinary dividends totalling £310 million (*2022: £270 million*) on the Company's ordinary shares were declared and settled during 2023.

(b) Key management compensation

The compensation for services to the Company for those employees, including relevant directors, classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, is as follows:

	2023	2022
	£'000	£'000
Aggregate emoluments	**1,261**	1,229
	1,261	1,229

Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by the Group companies on equivalent terms to those available to all employees of the Group. In 2023 and 2022, such transactions with key management personnel were not deemed to be significant either by size or in the context of their individual positions.

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in the United Kingdom.

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, 80 Fenchurch Street, London EC3M 4AE, and on the Aviva plc website at www.aviva.com.