Aviva Insurance Limited

Registered in Scotland No. SC002116

Annual Report and Financial Statements 2022

Contents

Directors and officer

Directors

C J Clark
I E Clark
F C Fry
J C Poole
N D Rochez
C W M Scott
M Strobel
C Toner
A C Winslow

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
Undershaft
London
EC3P 3DQ

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Pitheavlis
Perth
Scotland
PH2 0NH

Company number

Registered in Scotland no. SC002116

Other information

Aviva 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 2022.

Review of the Company's business

Principal activities

The principal activity of the Company is the transaction of general and health (non-life) insurance business in the United Kingdom ("UK"). This includes underwriting foreign risks arising from an inwards reinsurance arrangement with the Company's immediate subsidiary, Aviva Insurance Ireland Designated Activity Company ("AIIDAC") and from the Company's Global Corporate Specialty business. The major classes of business underwritten are personal lines (motor, home and other), health and commercial lines (property, liability, motor and other).

The Company's strategy focusses on its customers, with customer service at the heart of its business. The Company offers personal lines insurance through a wide range of distribution channels and commercial lines insurance to a wide range of businesses from micro through small and mid-market to large, multinational corporates. Capabilities in distribution, claims, underwriting and digital are clear differentiators.

The Company's strategy is supported by the aim to continue to deliver profitable growth and improve cash generation. The Group is also firmly committed to sustainability and is prioritising leading on Climate Action, stronger communities and sustainable business.

Significant events

During 2022 global financial markets experienced significant volatility and inflationary headwinds, but despite this, trading momentum has remained strong and the Company's service has remained market-leading, supported by its ongoing investment in digital journeys and an effective continued hybrid-working model.

Financial position and performance

The financial position of the Company at 31 December 2022 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.

The Company's net assets have decreased by £655 million *(2021: decreased by £216 million)* due to profit for the year after tax of £194 million offset by interim ordinary dividends of £849 million settled in 2022.

The profit after tax for the year was £194 million *(2021: £326 million)*, with the decrease primarily driven by negative short-term fluctuations in investment returns, as a result of the volatile market conditions experienced globally during 2022. Net earned premiums increased by £186 million, whilst the combined operating ratio ("COR") increased by 1.1pp to 95.8% *(2021: 94.7%)*, driven by a challenging external environment, with rising inflation and claims frequency in our motor business returning to near pre-pandemic levels. A tax credit for the year of £66 million *(2021: credit £26 million)* was driven by favourable movements in deferred taxes of £53 million.

The Company's net written premiums were £2,795 million *(2021: £2,620 million)*, with the increase driven by growth in commercial lines reflecting a combination of strong retention, new business growth and a hard rating environment.

Section 172 Statement

The directors report here on how they have discharged their duties under section 172 ("S172") of the Companies Act 2006.

S172 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 shareholders, 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 consider 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 directors' obligations to its shareholder, customers and other stakeholders are met. The Board monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements, and is committed to acting if our businesses should fall short of the standards expected.

The Board will sometimes engage directly with certain stakeholders on specific issues, however due to the size and distribution of our stakeholders and of the Company, stakeholder engagement often takes place at an operational level. The Board considers and discusses information from the Company's management team to help it understand the stakeholder interests and to ensure they are carefully considered as part of the Board's decision-making process. Through review of reports relating to strategy, financial and operational performance, key risk and legal and regulatory compliance, the Board is able to maintain an overview of engagement with stakeholders and other relevant factors which enables the directors to comply with their legal duty under S172.

The Board is also focussed on the wider social context within which the Company's businesses operate, including those issues related to climate change and sustainability which are of fundamental importance to the planet's well-being.

The Company's culture

The Company's culture is shaped, in conjunction with its immediate parent company, Aviva Group Holdings Limited ("AGH"), and its ultimate shareholder, Aviva plc, by a 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, and by valuing diversity and inclusivity in the workplace and beyond.

Key strategic decisions in 2022

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.

The Board approved the payment of interim ordinary dividends of £849million during the year to the Company's immediate parent company AGH. The Directors considered all relevant matters set out under the Companies Act 2006 concerning the payment of dividends, including reviewing the Company's distributable reserves and its ability to pay its debts as they fall due, having regard to the entirety of the Company's business and the actual and contingent liabilities.

Strategic report (continued)

The Board approved the acquisition of Azur Underwriting Limited's high net worth personal lines business which would further accelerate Aviva's path to a market leader in this area of business. The Board considered the key risks arising as a result of the acquisition and felt these were appropriately mitigated through the integration plan and discussions with the parties involved.

Stakeholder Engagement

The table below sets out the Board's approach to stakeholder engagement during 2022:

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Employees	Our people's well-being and commitment to serving our customers is essential for our long-term success.	- The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them. - The Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys. - The Group carries out a comprehensive global employee engagement survey each year, and the results are considered by the Board in the context of the Company's culture, values and behaviours. The actions to continually improve the results are discussed and agreed. - The Company's people share in the businesses' success as shareholders through membership of the Group's global share plans.
Customers	Understanding what's important to our customers is key to our long-term success.	- The Board receives regular reporting on customer outcomes and strategic initiatives throughout the year. - The Board closely monitors customer metrics and engages with the leadership team to understand the issues if performance does not meet customers' expectations. The Company is supported by a Conduct Committee to enable it to monitor customer metrics, and subsequently engage with the Senior Management to address any issues that may arise from customer complaints, customer feedback and our approach to Treating Customers Fairly. - The Board engaged with colleagues working directly with our customers through visits to our operating offices and meeting with customer facing teams to better understand their roles and challenges they face. During 2022 the Board visited teams in the Norwich office. - The Company launched the Quote Me Happy ("QMH") Essentials product to help customers access insurance in the current cost of living crisis. The QMH Connect App was also launched which encourages and rewards safer driving for younger customers.
Suppliers	We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries.	- The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. - All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual and brand damage caused by inadequate oversight or supplier failure. - An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers we provide them with the Aviva Supplier Code of Behaviour, and our interaction with them is guided by Aviva's Business Code of Ethics. - The Board reviews the actions Group has taken to prevent modern slavery and associated practices in any part of our supply chain and approves the Aviva Group Modern Slavery Act statement each year. - In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets standards for high payment practices. The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided at our premises in the UK.

Strategic report (continued)

Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships. As a major insurance company we are fully engaged in building resilience against the global impact of climate change.	- Our Board supports the community activities of the Aviva Group including the wellbeing proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support colleagues to volunteer in their communities. - Climate change is subject to increased political focus and regulation, as well as growing consumer awareness of the economic and social consequences of climate change and the impact on their purchasing decisions for financial services products. The Company continues to develop climate conscious products and services, which reward customers for environmentally responsible actions, provide some element of adaption/resilience or additional cover where possible for those customers at risk of extreme weather impacts. - The Company limits its exposure to the most carbon intensive elements of the economy through the Company's underwriting boundaries. These include restrictions on toxic waste companies that present a significant hazard to the environment, and carbon intensive industries such as mining, offshore oil and gas extraction. More broadly, the Company aims to use its underwriting insight to support its investment decisions, to ensure a consistent view of climate-related risks is taken. - Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As part of the Aviva Group, the Company is committed to Aviva's long-term strategy to reach net zero by 2040, and to support achieving this target the Aviva Group has defined climate risk preferences and operating risk limits. The Board continued to adopt the new climate risk preferences during the year, along with its 2023-2025 Plan which takes the new climate risk preferences into consideration. - The new AvivaZero sustainable motor proposition was launched in 2022, selling around 51,000 policies and carbon offsetting more than 300 million miles of driving.
Shareholders	Our retail and institutional shareholders are the ultimate owners of the Company.	- The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent. Additionally, members of the Aviva plc Board can attend the Company's Board meetings by invitation. - Martin Strobel, *Independent Non-Executive Director on the Aviva plc, the* Company's ultimate shareholder, was appointed as a Non-Executive Director of the Company effective 5 May 2022, and as Chair of the Board effective 1 July 2022, to support the aim to retain strong governance and controls including robust and independent subsidiary governance arrangements and improving the operating effectiveness of the Aviva Group. The change also formalised the representation of the subsidiary boards on the Plc Board and would strengthen communication between boards. - On 15 July 2022 the Board approved the appointment of Cheryl Toner as a Group Non-Executive Director to enhance the integration and alignment of strategy between the Group and the material subsidiaries. - During 2022, Amanda Blanc (Group Chief Executive Officer), George Culmer (Aviva plc Chair), and Charlotte Jones (Group Chief Financial Officer) attended AIL Board and/or Committee meetings.
Regulators	As an insurance company, we are subject to financial services regulations and approvals in all the markets we operate in.	- The Company has successfully implemented the FCA Pricing Practices regulation which supported bringing greater clarity and consistency to consumer across general insurance pricing. - The Company has a programme of regular meetings between Board members (including non-executive directors), the Company's senior management and its compliance function and the FCA and the PRA. The Company routinely provides copies of Board and Risk Committee papers to the FCA and PRA and also responds to requests for information when required, maintaining constructive and open relationships with the UK regulators. The PRA attended a Board meeting during the year.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc 2022 Annual Report and Accounts. The Company will work 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 is well positioned to compete in its key markets by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet our customer needs, alongside driving digitisation through customer services, propositions and ensuring we are easy for customers to do business with, however they chose.

Strategic report (continued)

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 32 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:

- General Insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- 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.
- Climate change: potentially resulting in higher than expected weather-related claims (including business continuity claims), inaccurate pricing of general insurance risk, reputational impact of not being seen as a responsible steward/investor, as well as adversely impacting economic growth and investment markets. This also includes risks for our investments relating to the impact of the transition to a lower carbon economy and litigation risk where we provide insurance cover.
- The Company is actively monitoring the impact of the ongoing conflict between Russia and Ukraine. The Company does not conduct operations in the affected region, and does not have material direct underwriting exposure or investment holdings there. The Company may experience adverse impacts from the wider financial and economic implications of this period of geopolitical uncertainty including on the value of its financial investments as well as on inflation and gross domestic product in the UK, and the rest of Europe, which are difficult to predict at this stage. The conflict has the potential to make already existing broader emerging risks more acute, such as cyber and energy security. A management action plan is in place to respond should any of these scenarios arise.

Key performance indicators

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

	2022	2021
Capital Metrics		
Solvency II capital surplus £m	**676**	1,161
Solvency II capital surplus ratio	**167%**	209%
Financial Performance Metrics		
Gross written premiums £m	**6,130**	5,762
Net written premiums £m	**2,795**	2,620
Profit for the year after tax £m	**194**	326
Decrease in shareholders equity £m	**(655)**	(216)
Alternative Performance Metrics		
Combined operating ratio (COR)	**95.8%**	94.7%
Net incurred claims ratio	**64.2%**	60.8%
Net earned commission ratio	**20.8%**	21.9%
Net earned expenses ratio	**10.8%**	12.0%

Non-Financial Metrics		
Relational net promoter score	**In upper quartile**	In upper quartile

As per the table above, the Company's Solvency II capital surplus of £676 million *(2021: £1,161 million)* decreased by £485 million during the year, with an equivalent decrease in the capital surplus ratio. The decrease in the overall surplus position was driven by the level of dividends paid to the Company's parent as surplus capital in excess of risk appetite was distributed to the shareholder.

COR is calculated as total underwriting costs expressed as a percentage of net earned premium. COR increased by 1.1 pp to 95.8% in 2022 *(2021: 94.7%)* driven by the impact of heightened market-wide claims inflation, adverse weather, and the non-repeat of motor frequency benefits experienced in 2021, partially offset by strong Commercial lines underwriting performance.

The net incurred claims, net earned commission and net earned expenses ratios are calculated as incurred claims, earned commissions and earned expenses, expressed as a percentage of net earned premiums. COR is equal to the sum of these three ratios.

The claims, commissions and expenses included in the COR excludes £6 million *(2021: £14 million)* of impairment of subsidiaries, £69 million of gains *(2021: £41 million losses)* due to changes in economic assumptions related to claims provisions, £42 million of foreign exchange losses *(2021: £51 million of gains)*, corporate costs of £nil *(2021: £16 million)*, and net £4 million income relating to other non-underwriting income and costs *(2021: £3 million cost)*.

The Company's principal non-financial KPI is the 'relational net promoter score' for the UK general insurance business. This measures the likelihood of a customer recommending Aviva, relative to the market. The score is determined through third party collation of customer feedback and a scoring system that gives greater weighting to lower scores ('detractors') than higher scores ('promoters'). The results are benchmarked against a representative sample of competitors' customers in order to determine a quartile score against the market.

Strategic report (continued)

By order of the Board on 6 April 2023

Kate Graham

For and on behalf of Aviva Company Secretarial Services Limited

Company Secretary

06 April 2023

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2022.

Directors

The names of the current directors of the Company are shown on page 3.

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

M Strobel was appointed as a director of the Company on 5 May 2022;

S P Burns resigned as a director of the Company on 30 June 2022;

K A Cooper resigned as a director of the Company on 15 July 2022;

C Toner was appointed as a director of the Company on 15 July 2022;

F C Fry was appointed as a director of the Company on 1 September 2022.

Company Secretary

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

Dividends

Interim ordinary dividends of £329 million on the Company's ordinary shares were declared and settled in cash in September 2022. Further dividends of £222 million were declared and settled in November 2022, and £298 million was declared and settled in December 2022 *(2021: dividends of £190 million were declared and settled in February 2021 and £352 million were declared and settled in December 2021).*

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2022 *(2021: £nil).*

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 payables and other financial liabilities (note 26); its contingent liabilities and other risk factors (note 28); its capital structure (note 31); management of its major risks including market, credit and liquidity risk (note 32); and derivative financial instruments (note 33).

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.

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

Details of significant post balance sheet events that have occurred subsequent to 31 December 2022 are disclosed in note 37.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 6.

Stakeholder engagement

Statements summarising the Company's employee engagement, and its engagement with suppliers, customers and its other stakeholders are included in the strategic report on pages 5 to 6.

Statement of Corporate Governance Arrangements

For the year ended 31 December 2022, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"). Application of the Principles by the Company during 2022 is set-out below:

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' and we include our customers, employees and our other stakeholders in this. 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 and BPA
- **Efficiency:** Simplifying and transforming our cost base, and working towards top quartile efficiency for all businesses
- **Sustainability:** Delivering on our market leading commitments across Climate Champion, Stronger Communities and Sustainable Business.

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

- **Care:** We care deeply about the positive difference we can make in our customers' lives
- **Commitment:** We understand the impact we have on the world and take the responsibility that comes with it
- **Community:** We recognise the strength that comes from working as one team, built on trust and respect
- **Confidence:** We believe the best is yet to come for our customers, our people and society.

The Board has made a number of strategic decisions through the year which are aligned to this purpose, as detailed in the Strategic Report.

The Board monitors the culture of the Company and raises any concerns during meetings and 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 customer. 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 members as a whole, 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 appetite 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 a separate Independent Non-Executive Chair and 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 Board composition remains appropriate.

The Board is comprised of both Non-Executive Directors, the majority of whom are Independent Non-Executive Directors, and Executive Directors. 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 shareholders as a whole and in a way that is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice.

The Board undertook a formal effectiveness review of its performance, the results of which were discussed by the Board in a private session at its meeting on 16 December 2022. The Board evaluation tracker was subsequently refreshed to include new actions arising from the 2022 evaluation process and will be updated on an ongoing basis throughout the year and shared regularly with the Board. The next independent assessment will take place in 2023. The 2022 Board Effectiveness Review assessed that overall the Company was operating effectively with a number of areas prioritised for focus during the coming year.

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 of the Company 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 responsibilities. These roles and responsibilities are clearly documented in the Management Responsibility Maps which form part of our Governance Framework and which are submitted to the PRA and the FCA on a quarterly basis. The Company must also adhere to the Group's Subsidiary Governance Principles which are a set of internal governance principles.

The Board held four quarterly meetings this year, plus a further 15 meetings to discuss specific items and one additional strategy session. The Board's key areas of focus in 2022 was implementation of Consumer Duty, key strategic projects and monitoring market volatility.

The Board has established an Audit Committee, a Risk Committee and a Conduct Committee. The Terms of Reference for these committees are aligned to those of Aviva plc and are approved annually by the Board. The committees also undertake annual effectiveness reviews. The results are discussed by the committee and an action plan is agreed, with the actions tracked by the Company Secretary.

The Audit Committee is responsible for reviewing the effectiveness of the Company's financial reporting systems and controls and receive regular updates on the work of the Company's internal audit function and from its external auditors. The Board also receives reports from the CFO at each meeting. The Company's financial reporting is currently externally audited by PricewaterhouseCoopers LLP on an annual basis.

The Risk Committee is responsible for oversight of risk, reviewing the Company's risk appetite 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 Conduct Committee is responsible for assisting the Board in its oversight of conduct issues. This includes oversight of the Company's conduct framework including product design, live selling practices, claims practices, and conduct oversight of third parties. The Committee's responsibilities include reviewing the Company's conduct and financial crime risk profile, and overseeing the brand and reputation of the Company, ensuring that reputational risk is consistent with the risk tolerance approved by the Board and the creation of long-term shareholder value.

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. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity.

More detail on the Company's principal risks and uncertainties can be found in the Strategic Report.

Directors' report (continued)

Principle 5 - Remuneration

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.

Under the Aviva Group Reward Governance Framework, the Global Remuneration Policy is approved by the Aviva plc Remuneration Committee and 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 in note 5.

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 its gender pay gap, and on the steps it 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 23 November 2022 to discuss 2022 performance and conduct of key individuals of the Company's management and provided input into their 2022-2023 remuneration reviews.

Principle 6 - Stakeholders

Details about stakeholders can be found in the section 172 statement in the Strategic Report.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 32 on risk management.

Employees

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

Disclosure of information to the 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 External Auditors, PricewaterhouseCoopers LLP, 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 PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

Under the Competition and Markets Authority Regulations, the Company is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but COVID-19 restrictions caused delays and Aviva sought a two year extension from the Financial Reporting Council ("FRC") which was granted. Following a full and rigorous competitive tender process, which was overseen by the Group's Audit Committee, the selection of Ernst & Young LLP from the year ending 31 December 2024 was approved by the Aviva plc Board. PricewaterhouseCoopers LLP will continue in its role and, subject to reappointment by the Company's shareholders at the 2023 Annual General Meeting, will undertake the audit 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.

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 judgements and accounting estimates that are reasonable and prudent;
- 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.

They 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.

Directors' report (continued)

By order of the Board on 6 April 2023

Kate Graham

For and on behalf of Aviva Company Secretarial Services Limited

Company Secretary

06 April 2023

Independent auditors' report to the member of Aviva Insurance Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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 2022 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2022; the income statement, the statement of changes in equity and the statement of cash flows 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 6. Auditors' remuneration, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Based on the output of our risk assessment, along with our understanding of the Company's structure, we performed full scope audits over the following components: the UK General Insurance operations and the Company's quota share reinsurance arrangement with Aviva International Insurance Limited (a fellow Aviva group Company).
- Where other specific account balances were considered to be significant in size in relation to the Company, we scoped our audit to include detailed testing of those account balances.

Key audit matters

- Valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves;
- Disclosure of the estimated impact of transitioning to IFRS 17 'Insurance Contracts'.

Materiality

- Overall materiality: £54,140,000 (2021: 50,430,000) based on the total amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £40,610,000 (2021: £37,822,500).

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 member of Aviva Insurance Limited

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.

Disclosure of the estimated impact of transitioning to IFRS 17 'Insurance Contracts' is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves;	
Refer to item K in the Accounting policies and to notes 21 and 22 to the Company's financial statements for disclosures of related policies and balances. Claims IBNR reserves (a subset of "Insurance liabilities") and the associated reinsurers' share of claims IBNR reserves (a subset of "Reinsurance assets") represent significant accounting estimates in the financial statements. As at 31 December 2022, the value of the Company's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is £1,360 million and £956 million respectively. Key areas of focus this year were: • The methodologies and assumptions used in estimating the costs of claims for general insurance products, in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; • The underlying volatility attached to estimates for the larger classes of business such as the motor accounts, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR; • The magnitude of uncertainty in respect of rising inflation in claims costs and its impact on assumptions adopted in the determination of claims IBNR; • Development in latent reserves including sporting injury related claims; • Uncertainty in Covid Business Interruption reserves and the related assumptions; and • The impact of weather related claims.	In performing our audit work over the valuation of claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for certain larger or higher risk classes of reserves (covering the majority of the balance), as at 30 September 2022 and performing roll-forward testing to 31 December 2022. This includes classes relating to personal injury and weather, as well selecting our own assumptions for inflation. We also calculate and apply net to gross ratios at class of business level against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves. Finally, we compared our estimates to those booked by management to form part of our determination as to whether the overall IBNR reserves represent a reasonable estimate; • For other classes of business, which include business interruption losses arising as a direct result of Covid-19 and latent, including sporting head injury claims, we tested the methodology and assumptions used by management to derive the gross and net of reinsurance claims IBNR reserves and assess whether these produced reasonable estimates based on the underlying facts and circumstances; and • Performing key indicator testing over the remaining classes of business to ascertain the reasonableness of the gross and net of reinsurance claims IBNR reserves. In performing the above we have also considered and tested the following: • The internal control environment in place over claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves including: o Governance control activities; and o Control activities supporting key data used in the estimation process. • The underlying relevant data (including but not limited to claims case estimates and claims paid) to relevant evidence; • Examined prior year development of previous estimates; • Management's assessment of estimation uncertainty; • Performed stand-back tests for developments close to year end related to weather events; • Considered whether any of our audit procedures gave rise to an indication of management bias in the estimates; • In relation to losses arising as a direct result of COVID-19, we challenged the assumptions made by management taking account of the results of ongoing legal judgements, inspecting legal advice and considering our own assessment of plausible scenarios that may arise; • Assessed the reasonableness of latent reserves including management's methodology over setting reserves for areas such as sporting head injury claims; and • We also obtained and reviewed relevant reinsurance contracts and reviewed correspondence with reinsurance providers to test management's assumptions over the performance of the reinsurance contracts. Based on the work performed we found that the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves were supported by the evidence we obtained.

Independent auditors' report to the member of Aviva Insurance Limited

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Disclosure on the estimated impact of adopting IFRS 17 Insurance Contracts.
Refer to item A(i) in the Accounting policies to the Company's financial statements for disclosures of related policies and balances.
IFRS 17 is a complex accounting standard which requires considerable judgement and interpretation in its implementation. The related IAS 8 disclosures in these financial statements are intended to provide users with an understanding of the estimated impact of the new standard.
The Company has identified that the estimated impact of the adoption of IFRS 17 on the Company's net asset value as at 1 January 2022 is expected to be an increase within the range of £0-100m.
We have determined the disclosure of the estimated impact of IFRS 17 to be a key audit matter because the nature and extent of the changes introduced under the new standard require a high degree of judgement and subjectivity to arrive at the estimated impact on the net asset value.
In performing our risk assessment, we have focussed on the impact on the total net asset value that is quantified as part of the IAS 8 disclosures in the 2022 financial statements of AIL. Based on this, we have determined the following key areas of focus:

Management's use of Premium Allocation Approach ('PAA') measurement model for groups of contracts that are not automatically eligible for the Premium Allocation Approach;
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; and
The appropriateness of methodologies and assumptions adopted to determine the effect of discounting.

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In performing our audit work over the estimated impact of adopting IFRS 17 Insurance Contracts we have used actuarial specialists as part of our team to conduct some of the testing.
Our procedures were focused on the following material matters determined as part of our risk assessment:

The use of the Premium Allocation Approach (PAA);
The Risk adjustment methodology; and
The application of Discounting.

As part of our risk assessment, we performed end-to-end walkthroughs of the processes and any controls designed to estimate the impact to net asset value as at 1 January 2022.
The audit procedures included:
<u>Premium Allocation Approach (PAA)</u>

Assessing the appropriateness of judgements made in how the technical requirements of IFRS 17 apply, including the approach to determine the level at which insurance contracts can be aggregated into groups for measurement purposes;
Evaluating the appropriateness of management's PAA eligibility analysis; and
Testing the completeness and accuracy of data used in the underlying models, evaluating the assumptions and reasonably expected scenarios and testing of the accuracy of models.

<u>Risk Adjustment</u>

Assessing key judgements and conclusions made within accounting policy papers as well as compliance of management's accounting principles with IFRS 17 to calculate the amount of risk adjustment on net asset value at 1 January 2022;
Specifically, we considered key judgements in management's definition of the compensation it requires to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk, including management's definition of financial and non-financial risk;
Independently recalculating the impact of risk adjustment on the net asset value at 1 January 2022; and
Assessing and inspecting the robustness of management's processes for testing the implementation of model calculations.

<u>Discounting</u>

Assessing key judgements and conclusions made within accounting policy papers as well as compliance of management's accounting principles with IFRS 17 to determine the application of discounting on net asset value at 1 January 2022;
In particular, we considered judgements relating to the selection of the discount rate approach including consideration of the illiquidity premium, and the amount and timing of future cash flows;
Independently recalculating the impact of discounting on net asset value at 1 January 2022; and
Assessing and inspecting the robustness of management's processes for testing the implementation of model calculations on the impact on net asset value at 1 January 2022 for discounting.

<u>Disclosure</u>

Assessing the disclosures in the Company's Financial Statements in relation to the adoption of IFRS 17 against the principles of IAS 8. In particular, assessing the appropriateness of the range presented by management, which we deem appropriate as full implementation and testing of systems and controls remains underway, therefore there remains a degree of estimation uncertainty.

Based on the procedures we performed, we were able to conclude that the IAS 8 disclosures including the estimated range of the impact to the net asset value is supportable by the available information as provided by management.
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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.

Using the outputs from our risk assessment, along with our understanding of the Company's structure, we scoped our audit based on the significance of the results and financial position of individual components relevant to the total Company result and financial position. In doing so, we also considered qualitative factors and ensured we had obtained sufficient coverage across all financial statement line items at a total Company level.

Independent auditors' report to the member of Aviva Insurance Limited

Based on the outputs of our audit scoping exercise, we identified the Company's components to be the individual reporting units that comprise the Company. We performed a full scope audit of the UK General Insurance operations and the Company's quota share reinsurance arrangement with Aviva International Insurance Limited, as they had the most significant impact on the Company financial statements.

For the remaining components, we identified certain account balances which were considered to be significant in size or audit risk and scoped the audit to include detailed testing of these account balances.

We determined the level of involvement required by other auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We exercised oversight over the work performed by other auditors by maintaining regular and timely communication, including performing video-calls, discussions, review of working papers and written communications as appropriate.

The impact of climate risk on our audit

As part of our audit we made enquiries of management (both within and outside of the Company's finance function) to understand the extent of the potential impact of climate risk on the company's financial statements. Management considers the impact of climate change to be a significant long term risk to the business resulting in physical risks, transition risks and litigation risks.

The key area in the financial statements where management evaluated that climate risk has a potential significant impact are within note 32 (e) (ii) and (g).

Using our knowledge of the business we evaluated management's risk assessment and concluded that our procedures did not identify any material impact as a result of climate risk on the company's financial statements outside of weather related insurance contract liabilities. We remained alert when performing our audit procedures for any indicators of the impact of climate risk. The uncertainties presented in estimating insurance contract liabilities, which include weather related claims, and how we have addressed these are covered in our key audit matters section.

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	£54,140,000 (2021: 50,430,000).
How we determined it	Being the total amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract with Aviva International Insurance Limited.
Rationale for benchmark applied	COR is a key performance related benchmark used by the directors and is central to the Company's communications to the public on the performance of this business. We have excluded the impact of the 50% quota share contract with Aviva International Insurance Limited because excluding the impact is most reflective of the performance of the core business.

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% (2021: 75%) of overall materiality, amounting to £40,610,000 (2021: £37,822,500) 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 in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,707,000 (2021: £2,521,500) 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:

- Obtaining and assessing the reasonableness of the Directors' assessment, taking into consideration:
    - the Company's year-end investment portfolio and its exposure to certain types of assets, cash flows and liquidity analysis and operational resilience;
    - Management's assessment of the regulatory Solvency coverage and liquidity position; and
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict the Directors' assessment of going concern.

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 member of Aviva Insurance Limited

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 2022 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 to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, 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'. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non- compliance with laws and regulations and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle-blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;

Independent auditors' report to the member of Aviva Insurance Limited

- Assessment of any matters reported on the Company's whistle-blowing hotline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Reserve and Projections Committee, and Board of Directors;
- Reviewing the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves described in the related key audit matter above;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 member 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 directors 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 11 years, covering the years ended 31 December 2012 to 31 December 2022.

Deepti Vohra (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 April 2023

Accounting policies

The Company, a private company limited by shares incorporated and domiciled in the United Kingdom ("UK"), transacts general insurance and health business. The principal 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.

On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards on 1 January 2021.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of a UK parent and is included in the consolidated financial statements for the Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

In accordance with IFRS 4 *Insurance Contracts*, the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (the functional currency). 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 ("£m").

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

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2022. The amendments have been issued and endorsed by the UK and do not have a significant impact on the Company's financial statements.

(i) *Annual improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (published by the IASB in May 2020).*
(ii) *Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (published by the IASB in May 2020).*
(iii) *Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (published by the IASB in May 2020).*
(iv) *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract (published by the IASB in May 2020).*
(v) *Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021 (published by the IASB in March 2021).*

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

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts. Amendments to the standard were published in June 2020 and December 2021 (Initial Application of IFRS 17 and IFRS 9 - Comparative Information). In May 2022, the UK endorsed both IFRS 17 and the amendments, all of which apply to annual reporting periods beginning on or after 1 January 2023. IFRS 17 replaces IFRS 4 *Insurance Contracts*, which was issued in 2005. In contrast to the requirements of IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to accounting for insurance contracts.

The Company is implementing IFRS 17 retrospectively as of 1 January 2023. The opening balance sheet date for comparative information is 1 January 2022, which is also the transition date.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance 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, for certain contract groups, a contractual service margin (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 general measurement model (GMM), supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach (VFA)), and a simplified approach (the premium allocation approach (PAA)) for short-duration contracts. The Company has no contracts under the VFA and the majority of its contracts are measured using PAA.

The application of IFRS 17 significantly impacts the measurement and presentation of the Company's insurance and reinsurance contracts. IFRS 17 features the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts. The financial impact of measurement changes for the majority of non-life contracts is not material, however there will be significant changes to presentation and disclosures.

(a) IFRS 17 Measurement Models

The two applicable models apply to the Company as follows:

Model	Applicable business
GMM	• Intra-Group reinsurance contracts issued that are not eligible for PAA • Contracts reinsuring the adverse development of incurred claims, including the reinsurance of structured settlements to Aviva Life and Pensions UK Limited
PAA	• Short duration general insurance and health contracts • Longer duration non-life insurance contracts which meet PAA eligibility requirements • Reinsurance contracts issued or held which meet PAA eligibility requirements

Accounting policies (continued)

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 CSM, which is applicable to contracts measured on the GMM basis. 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. 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.

At inception, a CSM is recognised for each new group of contracts which represent the unearned profit to be recognised over the coverage period of the contract. Except for reinsurance contracts held, losses on groups of contract 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.

In contrast to insurance contracts, the CSM for groups of reinsurance contracts held can be an asset or liability. If reinsurance is in place when underlying groups of insurance contracts become onerous the reinsurance CSM recognised is adjusted to offset the gross losses arising. Where the net cost of purchasing reinsurance contracts held relates to events that occurred prior to purchase (for example adverse development cover) no CSM is recognised, and the net cost is recognised immediately in the income statement.

ii. 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 all of the Company's insurance contracts and the majority of reinsurance contracts issued and held which meet the Company's eligibility criteria. The exceptions to this are intra-Group reinsurance contracts issued by the Company and reinsurance contracts held which reinsure adverse development of incurred claims.

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 cashflows are recognised in profit or loss over the life of the contract, based on the expected timing of incurred claims. In almost all circumstances, the expected timing of incurred claims does not differ significantly from the passage of time and a straight-line earning pattern is being used. This approach is similar to the Company's previous approach for measuring non-life insurance contracts under IFRS 4.

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 most 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 future cash-flows. For Health insurance contracts a PAA exemption is applied to measure the LIC on an undiscounted basis given the short-tailed nature of the claims.

(b) Significant accounting policies, judgements and estimates

The implementation of IFRS 17 will require the Company to implement new accounting policies, replacing those previously applied under IFRS 4, and make estimates and assumptions that will affect items reported in the income statement and statement of financial position. The significant accounting policies, judgements and estimates that will be applied by the Company on transition to IFRS 17 are summarised below.

i. Choice of measurement model

PAA eligibility

The majority of the Company's direct business has a duration of one year or less and is automatically eligible for the PAA model. For the remainder, financial modelling is performed 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 has multiple reinsurance contracts issued and held which are greater than one year in duration. These are assessed for PAA eligibility by applying the same financial modelling approach.

ii. Level of aggregation

IFRS 17 specifies the unit of account is a group of contracts and provides guidance on the level at which insurance contracts can be aggregated into groups for measurement purposes. Profitability is assessed for each group of insurance contracts applying PAA to identify onerous contract groups. Discrete CSM's 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 are managed together, and dividing each portfolio into annual cohorts by year of issue. Each annual cohort is then further subdivided into three groups based on the profitability of contracts determined at initial recognition and 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 have not identified any insurance contract groups that have no significant possibility of becoming onerous.

Reinsurance contracts held are also subdivided into three profitability groups, determined by reference to net gains/losses on initial recognition, and comprising:

- contracts that have a net gain at initial recognition;
- contracts that have no significant possibility of a net gain arising subsequently; and
- all remaining contracts.

The Company have not identified any reinsurance contract groups that have no significant possibility of a net gain arising subsequently.

The approach to profitability grouping makes use of sets of contracts. Where it can be demonstrated that all contracts within a set are sufficiently homogeneous, they are allocated to the same profitability group without performing an individual contract assessment.

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 has used internal management information to identify facts and circumstances that may indicate that a group is onerous.

iii. Estimate of future cash flows

The estimate of future cash flows is assessed at the level of profitability groups 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. Cash flows are modelled separately for gross and reinsurance contracts.

Principal non-financial assumptions

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

iv. Financial assumptions

Discount rates

Discounting is applied to the estimate of future cash flows. The Company uses a bottom-up discount rate for all non-life insurance contracts.

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% is applied to periodic payment orders with a lower percentage applied for other types of business that are considered partially liquid.

Inflation assumptions

Future inflation assumptions are treated as a financial assumption when applied to claims payments that are directly linked to an inflation index.

Presentation of financial assumption changes

The impact of changes in financial assumptions can be presented in the income statement or in the statement of comprehensive income as a matter of accounting policy choice. The Company has elected to recognise these impacts in the income statement, consistent with the approach to the presentation of fair value movements on assets in accordance with IFRS 9, thus eliminating accounting mismatches.

v. 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 Company's pricing and capital allocation framework, leveraging the Solvency II view of non-financial risk, considering a lifetime view, and including diversification between risks.

vi. CSM

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 related services are provided to the customer. The amount of CSM amortisation recognised in profit or loss 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.

Coverage units for reinsurance contracts issued and held are typically consistent with the underlying gross contracts, adjusted for differences in the services provided. Coverage units for adverse development cover reinsurance are based upon the settlement profile of the underlying claims reinsured under the relevant contract.

vii. Insurance acquisition cashflows

Insurance acquisition cashflows are initially deferred on the balance sheet as an insurance acquisition cashflow asset and then allocated against groups of insurance contracts to which they are directly attributable. This includes instances where insurance acquisition cashflows are directly attributable to the future renewal of existing contract groups for some of the Company's products. For contract groups applying PAA, the Company has chosen not to apply an exemption to recognise insurance acquisition cashflows as an expense at the point they are incurred.

Where insurance acquisition cashflows are allocated to contract groups applying GMM, they are included within the measurement of the CSM and recognised in the income statement over the period which services are provided to the customer. Insurance acquisition cashflows allocated to contract groups applying PAA are recognised in the income statement over the life of the contract based on the expected timing of incurred claims.

Insurance acquisition cashflow assets are assessed for impairment where facts and circumstances indicate that they may be impaired. The Company uses data on customer retention rates and the profitability of products to identify such facts and circumstances.

(c) IFRS 17 transition approach

Changes in accounting policies resulting from the implementation of IFRS 17 must be applied using the Fully Retrospective Approach (FRA) where practicable, measuring all insurance and reinsurance contracts at the date of transition as if the standard had always applied. Where FRA is not practicable for a particular group of insurance contracts there is a choice to apply the Modified Retrospective Approach (MRA) to the extent that reasonable and supportable information exists, or the Fair Value Approach (FVA).

For business in scope of the PAA, the FRA has been used. For reinsurance contracts issued and held that are in scope of the GMM, the FRA has been used for business written since 2016. For equivalent contracts written prior to this date the FVA has been applied as the risk adjustment is considered indeterminable without the benefit of hindsight due to the multiple views of risk that were reported at the time.

Application of the FVA

Under the FVA the CSM recognised at the transition date is determined as the fair value of the portfolio of contracts at the transition date less the fulfilment cash flows at the transition date. Unlike the FRA no pre-transition information is required to calculate the FVA CSM.

Accounting policies (continued)

The Company has only applied FVA to reinsurance contracts reinsuring the adverse development of incurred claims and which are measured using the GMM , for which the net cost of the reinsurance is required to be recognised within the Income statement immediately, without recognising a CSM balance. For such contracts, their measurement upon transition is comprised only of their discounted future cashflows and the risk adjustment.

(d) Financial impacts on transition to IFRS 17

On adoption of IFRS 17, the Company's net asset value at the transition date of 1 January 2022 is expected to be an increase within the range of £0 million - £100 million over the Company net asset value reported on an IFRS 4 basis at 31 December 2021, which was £1,803 million. The drivers of differences between IFRS 4 and IFRS 17 net asset values include the following:

Drivers	Description
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 non-financial risk.
Differences in the valuation of future cash flows	The primary differences in measurement of the future cash flows is the introduction of discounting for all non-life insurance business (under IFRS 4 only longer duration claims are discounted).
Deferred acquisition costs	Acquisition costs have been deferred over future renewals, where acquisition costs for new business reflect increased costs underpinned by future retention rate assumptions. Based on current retention rates, no costs are currently deferred beyond 4 years. Deferred acquisition costs will be subject to regular reviews for impairment where initial factors used in its calculation are subsequently identified as too favourable. This means acquisition costs will be recognised in the income statement over a longer duration than IFRS 4, where they are amortised over a year.
Risk Adjustment	The risk adjustment is an explicit allowance for non-financial risk recognised under IFRS 17, replacing the IFRS 4 margins.
Removal of unearned premium asset on reinsurance of incurred claims	Under IFRS 17, the unearned premium asset recognised on the reinsurance of structured settlements under IFRS 4 is eliminated and recognised in the income statement.
Contractual Service Margin	For certain reinsurance contracts issued by the Company, a Contractual Service Margin will be recognised to represent the unearned profit of reinsurance contracts issued. This will be recognised in profit or loss over the coverage period in line with the service provided. At transition, the value of the Contractual Service Margin is not material to the Company's profit or loss.
Change in deferred tax due change in liabilities	Taxable profits are generally based on an accounting profit and the adoption of IFRS 17 will impact current tax liabilities. 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 as tax will become payable on the increase recognised which reflects profits that would have emerged later under IFRS 4.

Transition impacts have been presented as ranges as there remains a degree of uncertainty pending completion and testing of systems and controls. At this stage the impacts of IFRS 17 on the income statement and the statement of financial position at 31 December 2022 cannot be reliably estimated pending full implementation and testing of systems, including the operational effectiveness of internal control processes. The Company's IFRS 17 programme will conclude in 2023.

IFRS 17 will have no impact on the Company's Solvency II performance measures. Furthermore, the transition to IFRS 17 is not expected to impact on the Company's dividend capacity.

(ii) IFRS 9, Financial Instruments

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that addressed the accounting consequences of the application of IFRS 9 to insurers prior to implementing IFRS 17. Under the deferral approach set out in the amendments, the Company has elected to apply the temporary exemption from applying IFRS 9 from 1 January 2018. The Company has however been required to apply the additional disclosure requirements of IFRS 4 which are set out in notes 22 and 58. Eligibility for the deferral approach was based on an assessment of the Company's liabilities as at 31 December 2015, in accordance with the date specified in the amendments to IFRS 4. At this date the Company's liabilities connected with insurance exceeded 90% of the carrying amount of the Company's total liabilities.

In November 2016, the EU endorsed IFRS 9, followed by the Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 in December 2020, which extends the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 from 1 January 2021 until 1 January 2023, to align the effective dates with IFRS 17 Insurance contracts.

IFRS 9 incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

Under IFRS 9, entities have the option to restate prior periods on transition. The Company will elect to restate comparatives in line with the IFRS 17 approach for restatement. We have assessed the interaction of IFRS 9 with IFRS 17, and intend to continue to apply the Company's current policy of measuring the majority of its financial instruments at fair value through profit or loss, hence we do not expect any significant measurement differences on adoption of IFRS 9. There will be changes to presentation and disclosures, including reflecting the business model assessment required for classification of financial investments under IFRS 9.

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(iii) Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies

Published by the IASB in January 2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and have been endorsed by the UK.

Accounting policies (continued)

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

Published by the IASB in February 2021. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and have been endorsed by the UK.

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

Published by the IASB in May 2021. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and have been endorsed by the UK.

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

Published by the IASB in February 2021. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(vii) 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 periods beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(viii) 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 periods beginning on or after 1 January 2024 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.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, with those judgements involving estimation summarised thereafter.

Item	Critical accounting judgement	Accounting policy	Note
Financial Investments	Classification of investments including the application of the fair value option. The Company classifies its investments as either fair value through profit or loss (FVTPL) or available for sale (AFS). The classification depends on the purpose for which the investments were acquired and is determined by local management at initial recognition.	R	15

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.

The table below sets out those estimates considered particularly susceptible to changes in 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.

Accounting policies (continued)

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance and health liabilities include the discount rates used in determining latent claim and structured settlement 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).	K	21
Measurement of reinsurance contract assets	Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Significant estimates also include the estimated recoverability of amounts due from reinsurers.	L	22
Fair value of financial instruments, derivative financial instruments and investment property	Where quoted market prices are not available, valuation techniques are used to value financial instruments and investment property. These include broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuations for financial investments.	F, O, R & V	12, 14, 15, 33
Intangible assets	Intangible assets are recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows, discount rates and determination of useful lives.	M	9
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits.	Y	17
Deferred income taxes	Calculation and recognition of temporary differences giving rise to deferred tax balances includes estimates of the extent to which future taxable profits are available against which the temporary differences can be utilised. Management consider that a five year forecast is appropriate, based on the Company's Board approved Plan.	CC	23

During the year management reassessed the critical accounting policies and estimates previously provided and, based on their assessment of qualitative and quantitative risk factors, resolved that no change was required.

(C) Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Company has control. The Company controls an investee if, and only if, the Company has all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company considers all relevant facts and circumstances in assessing whether it has power over an investee including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement. Where investments are impaired, the impairment is reviewed annually for possible reversal.

(D) Associates

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Company has significant influence if it has between 20% and 50% of voting rights.

Investments in associates are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement. Where investments are impaired, the impairment is reviewed annually for possible reversal.

(E) 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 debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss ("FVTPL") (see accounting policy R) 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, whereas such differences on available for sale ("AFS")

Accounting policies (continued)

equities are included in the investment valuation reserve through other comprehensive income. Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement.

(F) Fair value measurement

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

(G) 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. Contracts that transfer financial risks, but not significant insurance risk are classified as investment contracts.

As noted in accounting policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly.

(H) Premiums earned

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with incidence of risk, which in almost all circumstances, does not differ significantly from the passage of time. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(I) Other fee and commission income

Other fee and commission income consists primarily of commissions on reinsurance ceded. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy Y. All other fee and commission income are recognised over time as the services are provided.

(J) Net investment income

Investment income consists of dividends, interest and rents for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy R). Dividends on equity securities are recorded as revenue on the ex-dividend date. Dividends from investments in subsidiaries are recorded as revenue on the date the dividends are declared. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

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. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(K) Insurance contract liabilities

Claims

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Accounting policies (continued)

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 21.

Provisions for latent claims and claims that are settled on an annuity type basis such as structured settlements are discounted in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 21.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement, within gross earned premiums, as recognition of revenue over the period of risk.

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

(L) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

(M) Intangible assets

Intangible assets consist primarily of internally developed systems. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range up to 10 years, using the straight-line method. The amortisation charge for the period is included in the income statement under other expenses.

Impairment

The carrying amount of intangible assets is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on intangible asset impairment testing are given in note 9. Any impairments are charged as expenses in the income statement.

(N) Property and equipment

Owner-occupied properties are carried at their revalued amounts and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives.

This excludes owner-occupied properties held under lease arrangements, which are measured at amortised cost. See accounting policy AA for further information.

Accounting policies (continued)

All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives of three to five years. The assets' residual values, useful lives and method of depreciation are reviewed regularly and at least at each financial year end, and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition of property and equipment are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(O) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company. Completed investment property is stated at its fair value, as assessed by qualified external valuers. Changes in fair values are recorded in the income statement within net investment income.

(P) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(Q) Derecognition and offset 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 where:

- 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 discharged or cancelled, or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(R) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

In general, the "other than trading" category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

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. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policy is used to determine the level of any impairment, which may involve considerable judgement:

An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or being in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period.

For AFS equity securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

Accounting policies (continued)

(S) Receivables and other financial assets

Receivables and other financial assets are recognised initially at cost, being fair value. Subsequent to initial measurement, receivables 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.

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.

(T) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at cost, being fair value and are subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are carried at fair value (see accounting policy V)

(U) Financial guarantees

Financial guarantees are recognised initially at their fair value and are subsequently amortised over the duration of the contract. A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon.

(V) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate and inflation linked swaps and currency and equity options that derive their value mainly from underlying interest rates, inflation rates, foreign exchange rates, credit or equity instruments or indices.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, 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. The Company has not designated any derivatives as hedging instruments for accounting purposes and they are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

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 and foreign exchange contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. 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 33.

The Company has collateral agreements in place with relevant counterparties. Accounting policy X below covers collateral, both received and pledged, in respect of these derivatives.

Interest rate, inflation rate and currency swaps

Interest rate and inflation rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate amounts by means of periodic payments, calculated on a specified notional amount and defined interest or inflation rates. Most interest and inflation rate swap payments are netted against each other, with the difference between the fixed and floating rate interest or inflation payments paid by one party.

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decreased over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward, and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

(W) Loans

Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. Certain 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.

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, taking into account the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement.

Accounting policies (continued)

(X) 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 (note 26). 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 financial investments.

(Y) Deferred acquisition costs

Costs relating to the acquisition of new insurance business are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and treated as a separate liability. Acquisitions costs deferred in the period include profit commission costs payable on an earned basis so are deferred and amortised in the same period.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

(Z) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

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

(AA) Leases

Where the Company is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding right-of use asset equal to cost are initially recognised. The right-of-use asset is subsequently measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Depreciation on lease assets and interest on lease liabilities is recognised in the income statement.

The Company has made use of the election available under IFRS 16 to not recognise any amounts on the balance sheet associated with leases that are either deemed to be short-term, or where the underlying asset is of low value. A short-term lease in this context is defined as any arrangement which has a lease term of 12 months or less. Lease payments associated with such arrangements are recognised in the income statement as an expense on a straight-line basis.

Where the Company is the lessor, leases are classified as finance leases if the risks and rewards of ownership are substantially transferred to the lessee and operating leases if they are not substantially transferred. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Company has not entered into any material finance lease arrangements as lessor.

(BB) 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 date of the statement of financial position. 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.

Restructuring provisions include lease termination penalties and employee termination payments. They comprise only the direct expenses arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity.

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.

Accounting policies (continued)

(CC) 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 available for sale investments, 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.

(DD) 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.

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 shareholders.

(EE) Pensions

The Company has no employees, however, it is one of a number of companies in the Group being charged for staff participating in pension schemes in the UK and Ireland, and its contributions are affected by the financial position of these schemes. In the absence of any contractual arrangements to allocate the net defined benefit cost for these schemes, measured in accordance with IAS 19, to individual businesses, it is the Group policy to allocate this cost fully to the main trading companies. Full disclosure of the Group's pension schemes is given in the Annual report and accounts of the Group.

Income statement

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Income	2		
Gross written premiums		**6,130**	5,762
Premiums ceded to reinsurers		**(3,335)**	(3,142)
Premiums written net of reinsurance		**2,795**	2,620
Net change in provision for unearned premiums		**(88)**	(99)
Net earned premiums	H & L	**2,707**	2,521
Fee and commission income, net of reinsurance	I	**24**	23
Net investment (loss)/income	J	**(11)**	189
(Loss)/profit on the disposal of a subsidiary		**(1)**	3
		2,719	2,736
Expenses	3		
Claims and benefits paid, net of recoveries from reinsurers	K	**(1,629)**	(1,409)
Change in insurance liabilities, net of reinsurance	K	**(40)**	(166)
Fee and commission expense, net of reinsurance		**(679)**	(673)
Other expenses, net of reinsurance		**(243)**	(188)
		(2,591)	(2,436)
Profit for the year before tax		**128**	300
Tax credit	CC & 7	**66**	26
Profit for the year after tax		**194**	326

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 19 to 30 and notes (identified numerically) on pages 35 to 76 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2022

	Note	Ordinary Share Capital	Capital contribution reserve	Special Reserve	Retained earnings	2022 Total equity
		£m	£m	£m	£m	£m
Balance at 1 January		**204**	**233**	**111**	**1,910**	**2,458**
Profit for the year		**—**	**—**	**—**	**194**	**194**
Total comprehensive income for the year		**—**	**—**	**—**	**194**	**194**
Dividends paid	8	**—**	**—**	**—**	**(849)**	**(849)**
Balance at 31 December		**204**	**233**	**111**	**1,255**	**1,803**

	Note	Ordinary Share Capital	Capital contribution reserve	Special Reserve	Retained earnings	2021 Total equity
		£m	£m	£m	£m	£m
Balance at 1 January		204	233	111	2,126	2,674
Profit for the year		—	—	—	326	326
Total comprehensive income for the year		—	—	—	326	326
Dividends paid	8	—	—	—	(542)	(542)
Balance at 31 December		204	233	111	1,910	2,458

The accounting policies (identified alphabetically) on pages 19 to 30 and notes (identified numerically) on pages 35 to 76 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Intangible assets	M & 9	**77**	99
Investments in subsidiaries	C & 10	**1,726**	1,732
Investments in associates	D & 10	**—**	34
Property and equipment	N & 11	**14**	28
Investment property	O & 12	**202**	271
Financial investments	R & 15	**4,669**	3,914
Reinsurance assets	L & 22	**5,645**	5,673
Receivables	S & 16	**3,272**	3,112
Deferred acquisition costs	Y & 17	**671**	627
Prepayments and accrued income	17	**229**	164
Deferred tax assets	CC & 23	**168**	115
Current tax assets	CC & 23	**32**	2
Cash and cash equivalents	Z & 30	**1,127**	2,057
Total assets		**17,832**	17,828
Equity			
Ordinary share capital	DD & 18	**204**	204
Other reserves	19	**344**	344
Retained earnings	20	**1,255**	1,910
Total equity		**1,803**	2,458
Liabilities			
Gross insurance liabilities	K & 21	**9,604**	9,463
Provisions	BB & 24	**14**	21
Payables and other financial liabilities	T & 26	**5,556**	4,986
Other liabilities	T & 27	**855**	900
Total liabilities		**16,029**	15,370
Total equity and liabilities		**17,832**	17,828

The financial statements on pages 31 to 76 were approved and signed on behalf of the Board of Directors on 6 April 2023 by:

Jane Poole

J C Poole

Director

06 April 2023

The accounting policies (identified alphabetically) on pages 19 to 30 and notes (identified numerically) on pages 35 to 76 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows used in operating activities			
Cash used in operating activities[1]	30(a)	**(66)**	(534)
Tax paid		**(17)**	(21)
Total net cash used in operating activities		**(83)**	(554)
Cash flows (used in)/generated from investing activities			
Additions to subsidiary undertaking	10(a)	**—**	(74)
(Costs)/proceeds of disposals of subsidiary undertakings	10(b)(ii)	**(1)**	15
Loan repayments received from parent undertaking	35(a)(i)	**—**	718
Capitalised costs relating to internally generated intangible assets under development[1]		**(29)**	—
Total net cash (used in)/generated from investing activities		**(30)**	659
Cash flows used in financing activities			
Dividends paid to ordinary shareholders	35(a)(viii)	**(849)**	(474)
Payment of principal on lease liabilities[2]	13(i)	**(16)**	(17)
Payment of interest on lease liabilities[2]	13(i)	**(1)**	(1)
Total net cash used in financing activities		**(866)**	(492)
Total net decrease in cash and cash equivalents		**(979)**	(387)
Cash and cash equivalents net of bank overdrafts at 1 January		**1,658**	2,045
Cash and cash equivalents net of bank overdrafts at 31 December	30(b)	**679**	1,658

[1]In the year ended 31 December 2022, capitalised costs relating to internally generated intangible assets under development totalled £29 million and have been presented within cash flows (used in)/generated from investing activities. In 2021, these costs totalled £23 million and are presented within note 30 Statement of cash flows, within changes in working capital.

[2]In the year ended 31 December 2021, total lease liability payments of £18 million have been further split between payments relating to interest on lease liabilities (£1 million) and payments relating to the principal (£17 million) to aid comparability.

The accounting policies (identified alphabetically) on pages 19 to 30 and notes (identified numerically) on pages 35 to 76 are an integral part of the financial statements.

Notes to the financial statements

1. Exchange rates

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

	2022	2021
Euro	**1.1298**	1.1910
US Dollar	**1.2097**	1.3544
Canadian Dollar	**1.6386**	1.7109

2. Details of income

	Note	2022 £m	2021 £m
Gross written premiums	21(d)	**6,130**	5,762
Less: premiums ceded to reinsurers	22(c)(ii)	**(3,335)**	(3,142)
Gross change in provision for unearned premiums	21(d)	**(194)**	(228)
Reinsurers' share of change in provision for unearned premiums	22(c)(ii)	**106**	129
Net change in provision for unearned premiums		**(88)**	(99)
Net earned premiums		**2,707**	2,521
Reinsurance commissions receivable		**4**	4
Other fee income		**20**	19
Fee and commission income		**24**	23
Total revenue		**2,731**	2,544
Interest and similar income			
From investments designated as trading and other than trading		**102**	75
Dividend income from equity securities		**9**	6
		111	81
Income from Group undertakings			
Dividend income		**279**	197
Net interest income		**339**	20
		618	217
Other (expense)/income from investments designated as trading			
Realised losses on disposals		**(108)**	(20)
Unrealised gains/(losses)		**285**	(33)
		177	(53)
Other expense from investments designated as other than trading			
Realised losses on disposals		**(489)**	(16)
Unrealised losses		**(389)**	(102)
		(878)	(118)
Net income/(expense) from investment properties			
Rent		**10**	13
Loss on disposal of investment properties		**(3)**	—
Fair value (losses)/gains on investment properties	12	**(38)**	55
		(31)	68
Other investment expenses		**(8)**	(6)
Net investment income		**(11)**	189
(Loss)/profit on the disposal of a subsidiary	10(b)(ii)	**(1)**	3
Total income		**2,719**	2,736

Premiums ceded to reinsurers include £2,707 million *(2021: £2,521 million)* premiums ceded in respect of a quota share reinsurance arrangement with Aviva International Insurance Limited ("AIIL") (see note 35(a)(iii)).

Notes to the financial statements (continued)

3. Details of expenses

	Note	2022 £m	2021 £m
Claims & benefits paid			
Claims and benefits paid to policyholders	21(b)(iii)	**3,397**	2,955
Less: Claim recoveries from reinsurers	22(c)(i)	**(1,768)**	(1,546)
Claims and benefits paid, net of recoveries from reinsurers		**1,629**	1,409
Change in insurance liabilities			
Change in insurance liabilities	21(b)(iii)	**(113)**	274
Change in reinsurance asset for insurance provisions	22(c)(i)	**153**	(108)
Change in insurance liabilities, net of reinsurance		**40**	166
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**1,176**	1,205
Change in deferred acquisition costs	17	**(40)**	(65)
Other acquisition costs		**222**	205
Less: Fee and commission expense ceded to reinsurers		**(679)**	(672)
		679	673
Other expenses			
Impairment of investments in subsidiaries	10	**6**	14
Amortisation of intangible assets	9	**45**	42
Pension deficit funding	25(b)	**—**	32
Net foreign exchange losses/(gains)		**38**	(46)
Other expenses		**354**	366
Less: Other expenses ceded to reinsurers		**(200)**	(220)
		243	188
Total expenses		**2,591**	2,436

Net claims and benefits paid and change in insurance liabilities include £1,686 million *(2021: £1,572 million)* claims recoveries in respect of a quota share reinsurance arrangement with AIIL (see note 35(a)(iii)).

4. Employee information

The Company has no employees (*2021: none*). 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. 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.

5. Directors' remuneration

Ms Cooper, Ms Toner, Ms Poole and Mr Winslow were remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc. Ms Cooper was remunerated for her services to the Group as whole until the date of her resignation. She was not remunerated for her service as director of the Company and the amount of time spent performing her duties is incidental to her role across the Group. This is consistent with prior years. Ms Toner's, Ms Poole's and Mr Winslow's remuneration is disclosed within the aggregate of key management compensation in note 35.

The fees for Mr Burns, Mr C J Clark, Mr I E Clark, Ms Fry, Mr Rochez, Mr Scott and Mr Strobel are paid for and borne by the Company, with the exception of additional fees paid by the ultimate parent Company Aviva Plc to Mr Strobel where they represent the Company on certain Group matters.

The emoluments in respect of Mr Burns, Mr C J Clark, Mr I E Clark, Ms Cooper, Ms Fry, Ms Poole, Mr Rochez, Mr Scott, Mr Strobel, Ms Toner and Mr Winslow are shown in the table below:

	2022 £'000	2021 £'000
Aggregate emoluments	**3,840**	2,553
Company pension contributions to a money purchase scheme	**206**	113
	4,046	2,666

Where directors had multiple directorships and their services as a director for the Company were not incidental to their roles across the Group, it is not possible to accurately apportion their emoluments to individual companies. The emoluments of these directors reported in the above table are in respect of qualifying services performed for the Group, which may also be disclosed within the financial statements of other Group companies.

Notes to the financial statements (continued)

Pension contributions consist of employer contributions into the money purchase section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps.

During the year, none of the directors *(2021: none)* accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, none of the directors *(2021: none)* exercised share options, and four of the directors *(2021: two)* were granted share options under long term incentive schemes in relation to shares of the Company's ultimate parent company, Aviva plc.

The details of the highest paid director are as follows:

	2022 £'000	2021 £'000
Aggregate emoluments	**1,331**	775
Company pension contributions to a money purchase scheme	**69**	41
	1,400	816

During the year the highest paid director was granted share options under long-term incentive schemes in relation to shares of the Company's ultimate parent company, Aviva plc.

6. Auditors' remuneration

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

	2022 £'000	2021 £'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**4,338**	2,297
Audit related assurance services	**282**	260
	4,620	2,557

Fees payable for audit related assurance services include fees in relation to the audit of the Solvency II results and the Employers Liability Register for 2022 and 2021.

Audit fees include £2,609 thousand *(2021: £2,297 thousand)* that are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies in respect of the statutory audit. They also include £1,729 thousand *(2021: £nil)* relating to the audit of disclosures in relation to the Company's transition to IFRS 17, that are payable by the Company's ultimate parent with no recharge.

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 financial statements of Aviva plc.

7. Tax

(a) Tax credited/(charged) to the income statement

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

	2022 £m	2021 £m
Current tax		
For the period	**15**	(19)
Prior period adjustments	**(2)**	1
Total current tax	**13**	(18)
Deferred tax		
Origination and reversal of temporary differences	**1**	26
Changes in tax rates or tax laws	**—**	18
Write back of deferred tax assets	**52**	—
Total deferred tax	**53**	44
Total tax credited to the income statement	**66**	26
United Kingdom tax	**78**	33
Overseas tax	**(12)**	(7)
	66	26

Notes to the financial statements (continued)

(ii) Unrecognised tax losses were used to reduce current tax expense and deferred tax charge by £nil *(2021: £9 million)* and £52 million *(2021: £nil)*, respectively.

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

	2022 £m	2021 £m
Insurance items	—	4
Unused losses and tax credits	**53**	23
Provisions and other temporary differences	—	17
Total deferred tax credited to the income statement	**53**	44

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

There was no tax credited or charged to other comprehensive income in either 2022 or 2021.

(c) Tax reconciliation

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

	Note	2022 £m	2021 £m
Total profit before tax		**128**	300
Tax calculated at standard UK corporation tax rate of 19.00% (2021: 19.00%)		**(24)**	(57)
Adjustment to tax charge in respect of prior periods		**(1)**	1
Non-assessable income		**52**	39
Disallowable expenses		**(1)**	(3)
Different local basis of tax on overseas profits		**(12)**	(7)
Change in future local statutory tax rate		—	18
Movement in valuation of deferred tax		**52**	35
Tax credited/(charged) for the year	7(a)(i)	**66**	26

The UK Government 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 and liabilities as at 31 December 2021 and 31 December 2022 and increased the Company's deferred tax assets by £18 million in the year ended 31 December 2021.

8. Dividends

	Note	2022 £m	2021 £m
Ordinary dividends declared and charged to equity in the year:			
Interim dividend - £9,305 per share, declared in February 2021		—	190
Interim dividend - £17,308 per share, declared in December 2021		—	352
Interim dividend - £16,151 per share, declared in September 2022		**329**	—
Interim dividend - £10,899 per share, declared in November 2022		**222**	—
Interim dividend - £14,653 per share, declared in December 2022		**298**	—
	35(a)(viii)	**849**	542

Interim ordinary dividends of £329 million were declared and settled in September 2022, all of which was settled in cash. Further interim ordinary dividends of £222 million were declared and settled in November 2022 and £298 million in December 2022.

In accordance with accounting policy DD all interim ordinary dividends settled during 2022 are recognised in the 2022 accounting period.

Notes to the financial statements (continued)

9. Intangible assets

	Note	Total £m
Gross amount		
At 1 January 2021		299
Additions		15
At 31 December 2021		**314**
Additions		**23**
At 31 December 2022		**337**
Accumulated amortisation		
At 1 January 2021		(173)
Amortisation for the year	3	(42)
At 31 December 2021		**(215)**
Amortisation for the year	3	**(45)**
At 31 December 2022		**(260)**
Carrying amount		
At 1 January 2021		126
At 31 December 2021		99
At 31 December 2022		**77**

Intangible assets consist primarily of costs relating to Guidewire, a policy administration and claims handling system. Costs relating to Guidewire are being amortised over 10 years.

10. Investments in subsidiaries and associates

(a) Movements in the Company's investments in its subsidiaries and associates

		2022		2021	
		Subsidiaries	Associates	Subsidiaries	Associates
	Note	£m	£m	£m	£m
Cost at 1 January		**1,732**	**34**	1,684	34
Additions	10(b)(i)	—	—	74	—
Disposals	10(b)(ii)	—	—	(12)	—
Impairments	10(b)(iii)	**(6)**	—	(14)	—
Transfer to Financial investments	10(b)(iv)	—	**(34)**	—	—
Cost at 31 December		**1,726**	—	1,732	34

(b) Material movements

(i) Additions

Additions of £nil *(2021: £74 million comprised)*:

- In February 2021, the Company made a capital contribution of £7 million cash to its subsidiary AIIDAC, in consideration of the issue of ordinary shares with a nominal value of Euro 8 million issued by AIIDAC to the Company;
- In December 2021, the Company made a further capital contribution of £67 million cash to its subsidiary AIIDAC, in consideration of the issue of further ordinary shares with a nominal value of Euro 79 million issued by AIIDAC to the Company.

(ii) Disposals

Disposals with a cost of £nil million *(2021: £12 million)* were as follows:

- In June 2021, the Company sold its entire holding in its subsidiary Neos Ventures Limited with a cost of £12 million for net sales proceeds of £15 million. During 2022, a further £1 million of residual costs were incurred in relation to the sale of Neos Ventures Limited.

(iii) Impairments

In accordance with *IAS 36 Impairment of Assets*, the Company's investments in subsidiaries are tested annually for impairment by comparing the carrying value of the underlying investments to the recoverable value, being the higher of the value-in-use or fair value less costs to sell. If applicable, an impairment charge is recognised when the recoverable amount is less than the carrying value. In the impairments below, the net asset value has been used as a reasonable approximation of the fair value less costs to sell.

Notes to the financial statements (continued)

The Company has an investment in Aviva UK Digital Limited ("UKD"), an affiliated insurance intermediary. UKD's recoverable amount is based upon its fair value less costs to sell in a discounted cashflow model projected over 12 years with a terminal value, which provides approximately £250 million headroom on a carrying value of £336 million. Inputs into its valuation calculation are a discount rate of 11.7%, a 3-growth rate of 11.0% per annum, a long-term growth rate of 3.0% per annum and a market commission rate of 15.0% which it would expect to earn on contracts written on an arms-length basis. The key assumption in the valuation is the market commission rate, which if reduced to 13% would eliminate the headroom on the investment in subsidiary. In addition, management expect to perform a strategic review of the company in 2023. Whilst the current strategy remains in force, an alternative strategic option could lead to the cessation of business activities within UKD, in which case the Company's investment would be fully impaired.

Impairments of £6 million (*2021: £14 million*) comprise:

- In December 2022, following receipt by the Company of dividends from Aviva Insurance Services UK Limited of £11 million, the cost of the Company's investment in its subsidiary Aviva Insurance Services UK Limited was fully impaired by £6 million;
- In September 2021, following receipt by the Company of dividends from Aviva Consumer Products Limited of £6 million, the cost of the Company's investment in its subsidiary Aviva Consumer Products Limited was fully impaired by £6 million;
- In December 2021, following receipt by the Company of dividends from Gresham Insurance Company Limited of £5 million, the cost of the Company's investment in its subsidiary Gresham Insurance Company Limited was partially impaired by £8 million.

(iv) Transfer to investments

During 2022, the Company's holding in its associate (Aviva Investors E_Reli S.a.r.l) was diluted as a result of a share issue and the Company's holding decreased to 17%. Aviva Investors E_Reli S.a.r.l is therefore no longer treated as an associate of the Company. At 31 December 2022, the Company's investment remained at £34 million and is included within financial investments.

(c) Related undertakings

See note 36 for details of all related undertakings.

Notes to the financial statements (continued)

11. Property and equipment

	Owner-occupied properties		Other assets	Total
	Freehold	Leasehold		
	£m	£m	£m	£m
Cost or valuation				
1 January 2021	23	391	2	416
Surrender of lease	—	(9)	—	(9)
31 December 2021	**23**	**382**	**2**	**407**
Disposals	**(18)**	**(2)**	—	**(20)**
31 December 2022	**5**	**380**	**2**	**387**
Depreciation and impairment				
At 1 January 2021	(12)	(368)	(1)	(381)
Depreciation charge for the year	—	(10)	—	(10)
Disposals	—	7	—	7
Impairment charge for the year	—	(7)	—	(7)
At 31 December 2021	**(12)**	**(378)**	**(1)**	**(391)**
Depreciation charge for the year	—	**(6)**	—	**(6)**
Disposals	**11**	**2**	—	**13**
Impairment charge for the year	—	**(1)**	—	**(1)**
At 31 December 2022	**(1)**	**(383)**	**(1)**	**(385)**
Carrying amount				
At 1 January 2021	11	23	1	35
At 31 December 2021	11	4	1	16
At 31 December 2022	**4**	**(3)**	**1**	**2**

The impairment of leasehold properties by £1 million during 2022 and £7 million during 2021 arose from the planned reduction in the Group's property footprint.

Owner-occupied properties, excluding £3 million held under leasing arrangements, are stated at their revalued amounts, as assessed by qualified external valuers. These valuations are assessed in accordance with the relevant parts of the current Royal Institute of Charted Surveyors Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ("Red book") and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, on the basis of the highest and best use of the asset that is physically possible, legally permissible and financial feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

Owner-occupied properties held under lease arrangements are stated at amortised cost and are amortised on a straight-line basis over the lease term. For further information on the Company's lease arrangements see note 13.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £26 million *(2021: £26 million)*.

12. Investment property

(a) Carrying amounts

	Note	2022 £m	2021 £m
Carrying value			
At 1 January		**271**	352
Capitalised expenditure on existing properties		—	—
Fair value (losses)/gains	2	**(38)**	55
Disposals		**(28)**	(136)
Loss on disposal of investment properties		**(3)**	—
At 31 December		**202**	271

See accounting policy F "Fair value measurement" for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2022 was £202 million *(2021: £271 million)*. Further contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 13.

Notes to the financial statements (continued)

13. Lease assets and liabilities

The Company's leased assets primarily consist of properties occupied by the Company carried at amortised cost (see note 11) and leasehold investment properties carried at fair value (see note 12) which are sublet to third parties. Leasehold investment properties are measured in accordance with IAS 40 Investment Property (see accounting policy O).

Although the Company is exposed to changes in the residual value at the end of the current leases to third parties on investment property, the Company typically enters into new operating leases and therefore is not expected to immediately realise any reduction in residual value at the end of these leases. Expectations of the future residual values are reflected in the fair value of the properties.

(i) Total interest expense included in the income statement in respect of lease liabilities is £1 million *(2021: £1 million)*. Total cash outflows recognised in the year in relation to leases were £17 million *(2021: £18 million)*. Expenses recognised in the Company income statement in relation to short-term and low-value leases were £nil *(2021: £nil)*. Variable lease payments not included in the measurement of lease liabilities were £nil *(2021: £nil)*.

(ii) The following table analyses the right of use assets relating to leased properties occupied by the Company.

	2022 £m	2021 £m
Balance at 1 January	**4**	23
Surrender of lease	**—**	(2)
Impairment of right of use assets	**(1)**	(7)
Depreciation	**(6)**	(10)
Balance at 31 December	**(3)**	4

Included within the income statement is income of £3 million *(2021: £4 million)* in respect of sublets of right of use assets.

(iii) Discounted lease liabilities included within note 26 are £22 million *(2021: £38 million)*. Future undiscounted contractual aggregate minimum lease payments are as follows:

	2022 £m	2021 £m
Within 1 year	**17**	17
Later than 1 year and not later than 5 years	**6**	22
Total undiscounted lease liabilities	**23**	39

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

(iv) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2022 £m	2021 £m
Within 1 year	**12**	13
Later than 1 year and not later than 5 years	**35**	37
Later than 5 years	**55**	62
Total lease rentals receivable	**102**	112

14. 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 1 inputs already reflect market participant views of climate change impacts and no further adjustments are made to these values.

Notes to the financial statements (continued)

Level 2

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 an 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 certain private equity investments and private placements.

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

No changes were made to the valuation techniques during the year compared to those described in the Company's 2021 annual report and financial statements.

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

The fair value of all the Company's financial investments, investment properties, deposits received from insurers and derivative liabilities is equal to their carrying amounts. The fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest ("SPPI") on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category.

	Note			2022			2021
		SPPI - Fair value	Non-SPPI - fair value	Total	SPPI - Fair value	Non-SPPI - fair value	Total
		£m	£m	£m	£m	£m	£m
Financial assets							
Debt securities	15	—	**2,771**	**2,771**	—	2,825	2,825
Equity security investments	15	—	**111**	**111**	—	632	632
Derivative assets	15 & 33	—	**563**	**563**	—	131	131
Unit trusts and other investment vehicles	15	—	**1,224**	**1,224**	—	326	326
Receivables	16	**2,764**	**508**	**3,272**	2,627	485	3,112
Accrued interest		**9**	**121**	**130**	6	82	88
Cash and cash equivalents	30	**224**	**903**	**1,127**	226	1,831	2,057
Total		**2,997**	**6,201**	**9,198**	2,859	6,312	9,171

During 2022 there has been a £138 million increase *(2021: £558 million decrease)* in the fair value of SPPI instruments, and a £111 million decrease *(2021: £797 million increase)* in the fair value of non-SPPI instruments.

Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 £m	Level 2 £m	Level 3 £m	2022 Total £m
Recurring fair value measurements					
Financial investments		**2,332**	**2,119**	**218**	**4,669**
Debt securities	15	**1,187**	**1,584**	**—**	**2,771**
Equity security investments	15	**109**	**—**	**2**	**111**
Derivative assets	15 & 34	**28**	**535**	**—**	**563**
Other investments	15	**1,008**	**—**	**216**	**1,224**
Investment property	12	**—**	**—**	**202**	**202**
Total		**2,332**	**2,119**	**420**	**4,871**
Financial liabilities					
Deposits received from reinsurers	35(a)(iii)	**(3,667)**	**—**	**—**	**(3,667)**
Derivative liabilities	33	**(6)**	**(390)**	**—**	**(396)**
Total		**(3,673)**	**(390)**	**—**	**(4,063)**

	Note	Level 1 £m	Level 2 £m	Level 3 £m	2021 Total £m
Recurring fair value measurements					
Financial investments		2,487	1,327	100	3,914
Debt securities	15	1,629	1,196	—	2,825
Equity security investments	15	630	—	2	632
Derivative assets	15 & 34	—	131	—	131
Other investments	15	228	—	98	326
Investment property	12	—	—	271	271
Total		2,487	1,327	371	4,185
Financial liabilities					
Deposits received from reinsurers	35(a)(iii)	(3,530)	—	—	(3,530)
Derivative liabilities	33	—	(266)	—	(266)
Total		(3,530)	(266)	—	(3,796)

(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.

There were no material transfers between levels of the fair value hierarchy following the assessment made at the end of 2022 and 2021.

(f) Valuation approach for fair value assets and liabilities classified as Level 2

See note 14(a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, sale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers. Over-the-counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit Trusts and other investment funds included under the other investments category are valued using net asset values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

Notes to the financial statements (continued)

(g) Further information on Level 3 financial instruments

The table below shows movements in the Level 3 assets and liabilities measured at fair value:

	Note	Equity securities	Investment property	Other investments	Non-current assets classified as held for sale
		£m	£m	£m	£m
Balance at 1 January 2022		**2**	**271**	**98**	—
Total net losses recognised in the income statement		—	**(41)**	**(2)**	—
Purchases		—	—	**86**	—
Disposals		—	**(28)**	—	—
Transfers into level 3	10(b)(iv)	—	—	**34**	—
Balance at 31 December 2022		**2**	**202**	**216**	—

	Equity securities	Investment property	Other investments	Non-current assets classified as held for sale
	£m	£m	£m	£m
Balance at 1 January 2021	2	256	116	96
Total net losses recognised in the income statement	—	55	(1)	—
Purchases	—	1	—	—
Disposals	—	(41)	(17)	(96)
Balance at 31 December 2021	2	271	98	—

The table below shows the sensitivity of the fair value of Level 3 investments to changes in unobservable inputs to a reasonable alternative:

2022	Fair value	Most significant unobservable inputs	Reasonable change	Positive impact	Negative impact
	£m			£m	£m
Investment property	202	Estimated rental yields	+/- 10%	+22	-22
Other Investments:					
Property funds	126	Market multiples applied to net asset values	'+/-6-15%[1]	+3	-12
Other investments	90	Market multiples applied to net asset values	+30% / -20%	+26	-18

2021	Fair value	Most significant unobservable inputs	Reasonable change	Positive impact	Negative impact
	£m			£m	£m
Investment property	271	Estimated rental yields	+5%/-5%	+14	-14
Other investments	98	Market multiples applied to net asset values	+/- 0.2x	+3	-1

[1] Dependent on investment category

The principal investments classified as Level 3, and the valuation techniques applied to them, are:

Investment in property

Investment property is valued in the UK at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors and using estimates during the intervening period. Outside the UK, valuations are produced by external qualified professional appraisers in the countries concerned. The Company's methodology requires external valuers in the UK to apply the 'Sustainability and ESG in commercial property valuation and strategic advice' guidance note issued by The Royal Institution of Chartered Surveyors in December 2021. In a valuation context, sustainability encompasses a wide range of physical, social, environmental, and economic factors that can affect value. The range of issues includes key environmental risks, such as flooding, energy efficiency and climate, as well as matters of design, configuration, accessibility, legislation, management and fiscal considerations. Investment properties are valued on an income approach that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no further growth in the estimated rental value of the property. The uplift and discount rates are derived from rates implied by recent market transactions on similar properties. These inputs are deemed unobservable.

Other investments

Unit Trusts and other investment funds including property funds are valued based on external valuation reports received from fund managers. During 2022, holdings in private equity funds transferred to the Company from its parent, Aviva Group Holdings Limited, for consideration of £78 million, and a further £8 million purchases were made. Transfers into level 3 during 2022 relate to the Company's investment in Aviva Investors E_Reli S.a.r.l. The Company's investment has remained at £34 million throughout the year, however, the value of the Company's holding has been diluted to 17% and Aviva Investors E_Reli S.a.r.l is no longer treated as an associate.

Notes to the financial statements (continued)

15. Financial investments

(a) Carrying amount

Financial investments comprise:

	2022			2021		
	At fair value through profit or loss			At fair value through profit or loss		
	Trading	Other than trading	Total	Trading	Other than trading	Total
	£m	£m	£m	£m	£m	£m
Fixed maturity securities						
Debt securities						
UK Government	—	884	884	—	1,236	1,236
Non-UK Government	—	542	542	—	707	707
Corporate	—	1,345	1,345	—	882	882
	—	2,771	2,771	—	2,825	2,825
Equity securities	—	111	111	—	632	632
Other investments						
Unit trusts and other investment vehicles	—	1,224	1,224	—	326	326
Derivative financial instruments	563	—	563	131	—	131
	563	1,224	1,787	131	326	457
Total financial investments	563	4,106	4,669	131	3,783	3,914

	2022	2021
	£m	£m
Expected to be recovered in less than one year	1,542	492
Expected to be recovered in more than one year	3,127	3,422
	4,669	3,914

Financial investments include £30 million (2021: £89 million) in respect of non-cash collateral pledged to third parties where the economic rights are retained by the Company.

(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.

	2022				2021			
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£m	£m	£m	£m	£m	£m	£m	£m
Fixed maturity securities	3,134	—	(364)	2,770	2,731	146	(52)	2,825
Equity securities	127	—	(16)	111	606	32	(6)	632
Unit trusts and other investment vehicles	1,216	53	(45)	1,224	321	27	(22)	326
Derivative financial instruments	98	525	(60)	563	82	55	(6)	131
	4,575	578	(485)	4,668	3,740	260	(86)	3,914

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.

Unrealised gains and losses on financial investments classified at fair value through profit or loss, recognised in the income statement in the year, were net losses of £104 million *(2021: £135 million net losses)*. Of these net losses, £389 million net losses *(2021: £102 million net losses)* related to investments designated as other than trading and £285 million net gains *(2021: £33 million net losses)* related to financial investments designated as trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal.

(c) Impairment of financial investments

There were no impairments in 2022 *(2021: none)*.

Notes to the financial statements (continued)

16. Receivables

	Note	2022 £m	2021 £m
Amounts owed by contract holders		**937**	921
Amounts owed by intermediaries		**826**	714
Amounts due from reinsurers		**85**	73
Group relief receivable		**142**	142
Amounts due from parent	35(a)(viii)	**19**	16
Amounts due from subsidiaries and associates	35(a)(viii)	**230**	195
Amounts due from other Group companies	35(a)(viii)	**12**	29
Loans due from parent	35(a)(i)	**500**	500
Loans due from subsidiaries	35(a)(i)	**508**	485
Other receivables		**13**	37
Total at 31 December		**3,272**	3,112
Expected to be recovered in less than one year		**2,122**	1,985
Expected to be recovered in more than one year		**1,150**	1,127
		3,272	3,112

Concentrations of credit risk with respect to receivables, external to the Group, are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of provisions already recognised for doubtful receivables.

17. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2022 £m	2021 £m
Deferred acquisition costs	**671**	627
Prepayments and accrued income	**229**	164
Total at 31 December	**900**	791

(b) The movement in deferred acquisition cost during the year are:

	Note	2022 £m	2021 £m
Carrying amount at 1 January		**627**	564
Acquisition costs deferred during the year		**1,265**	1,257
Amortisation		**(1,225)**	(1,192)
Foreign exchange rate movements		**4**	(2)
Total at 31 December		**671**	627

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

(c) Prepayments and accrued income

Prepayments and accrued income are expected to be recovered within one year of the statement of financial position date.

Notes to the financial statements (continued)

18. Ordinary share capital

	2022 £m	2021 £m
Allotted, called up and fully paid		
20,364 (2021: 20,364) ordinary shares of £10,000 each	**204**	204

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.

19. Other reserves

	Note	Capital contribution reserve £m	Special reserve £m	Total other reserves £m
Balance at 1 January 2021		233	111	344
Balance at 31 December 2021		233	111	344
Balance at 31 December 2022		**233**	**111**	**344**

Capital contribution reserve

In December 2019, the Company acquired the remaining 69% of the share capital of Aviva UK Digital Limited, that the Company did not already hold from its immediate parent Aviva Group Holdings Limited ("AGH") by way of a capital contribution received from AGH of £233 million.

Special reserve

On 31 December 2007, the Company's parent at the time, AIIL transferred its entire shareholding in Aviva Insurance UK Limited at its fair value of £1,348 million to the Company. The consideration was satisfied by the issue of new shares in the Company with the nominal value of £1,237 million to AIIL, and the establishment of a special reserve of £111 million under the group reconstruction relief provisions of section 611 of the Companies Act 2006.

20. Retained earnings

	Note	2022 £m	2021 £m
At 1 January		**1,910**	2,126
Profit for the year		**194**	326
Dividends paid	8	**(849)**	(542)
Balance at 31 December		**1,255**	1,910

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.

Notes to the financial statements (continued)

21. Insurance liabilities

(a) Carrying amount:

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2022 £m	2021 £m
Outstanding claims provisions	**5,176**	4,889
Provision for claims incurred but not reported	**1,360**	1,711
Provision arising from liability adequacy test	**—**	1
	6,536	6,601
Provision for unearned premiums	**3,068**	2,862
Total	**9,604**	9,463

(b) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The liabilities for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The Company only establishes loss reserves for losses that have already occurred. The Company therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Company takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability. The future recoveries from salvage and subrogation offset against reserves is £167 million *(2021: £127 million)*.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

(ii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then 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, from a range of possible outcomes, taking account of all the uncertainties involved. The recent period of elevated claims inflation and supply chain disruption has distorted historic development patterns, the Company has developed bespoke inflation models to help quantify these impacts. Explicit overlays can then be made to the outputs from the standard reserving tools where necessary. The range of possible outcomes does not, however, result in the quantification of a reserve range.

The following explicit assumptions are made which could materially impact the level of booked net reserves:

Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Rate		Mean term of liabilities	
	2022	2021	2022	2021
Latent claims	**3.2% to 4.5%**	0.7% to 1.1%	**10 years**	11 years
Structured settlements	**2.9% to 4.5%**	0.9% to 2.3%	**34 years**	35 years
Reinsured London Market business	**3.0% to 5.2%**	0.5% to 1.8%	**8 years**	8 years

The gross outstanding claims provision before discounting was £7,504 million *(2021: £6,983 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves, structured settlements and reinsured London Market business is based on the swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement dates of the claims. The range of discount rates used

Notes to the financial statements (continued)

depends on the duration of the claims and is given in the table above. The duration of the claims range up to 35 years. There has been a significant increase in the discount rates used in 2022 when compared to 2021 given external market conditions led to a marked increase in risk-free real returns.

At 31 December 2022, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £18 million *(2021: £39 million), excluding the offsetting effect on asset values as assets are not hypothecated across classes of business.*

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Lump sum payments in settlement of bodily injury claims that are decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. 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 balance sheet reserves in the UK have been calculated using the current Ogden discount rate of -0.25%, as this is the enacted legislative rate that was announced by the Lord Chancellor in August 2019. The Ogden discount rate is expected to be reviewed by the Lord Chancellor by summer 2024.

(iii) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2022 £m	2021 £m
Carrying amount at 1 January		**6,601**	6,370
Impact of changes in assumptions		**(518)**	23
Claim losses and expenses incurred in the current year		**3,691**	3,176
Increase in estimated claims losses and expenses incurred in prior periods		**107**	30
Incurred claims losses and expenses		**3,279**	3,229
Less:			
Payments made on claims incurred in the current year		**(1,740)**	(1,448)
Payments made on claims incurred in prior years		**(1,657)**	(1,507)
Claims payments made in the year	3	**(3,397)**	(2,955)
Unwind of discount		**5**	—
Changes in claims reserve recognition as (income)/expense		**(113)**	274
Foreign exchange rate movements		**48**	(43)
Carrying amount at 31 December		**6,536**	6,601

(c) Analysis of general insurance and health claims development

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2013 to 2022. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year, while the lower section of the tables shows the original estimated ultimate cost of claims and how these original estimates have increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity. For example, with respect to the accident year 2013, by the end of 2022, £2,798 million had actually been paid in settlement of claims, gross of reinsurance. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £2,902 million was re-estimated to be £2,860 million at 31 December 2022.

The original estimates increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2022), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table in note (c)(ii) and (c)(iii) below. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the development of prior accident year general insurance and health net provisions during 2022 were:

- Release of the explicit reserve uncertainty provisions as claims are paid and the ultimate cost of claims becomes less uncertain;
- Releases across motor in both the UK and Ireland due to favourable large claims experience; partially offset by
- Adverse experience in the UK within commercial property, personal property and commercial liability.

Key elements of the development of prior accident year general insurance and health net provisions during 2021 were:

- Release of the explicit reserve uncertainty provisions as claims are paid and the ultimate cost of claims becomes less uncertain;
- Releases across motor in both the UK and Ireland due to favourable large claims experience; partially offset by
- Adverse experience in both the UK and Ireland within commercial liability and personal property.

Notes to the financial statements (continued)

The loss development tables in respect of the claims payments and the estimated ultimate cost of claims are as follows:

(i) Gross of reinsurance

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claim payments												
At end of accident year		(1,564)	(1,550)	(1,547)	(1,593)	(1,651)	(1,795)	(1,838)	(1,519)	(1,448)	(1,740)	
One year later		(2,144)	(2,114)	(2,242)	(2,231)	(2,251)	(2,449)	(2,459)	(2,229)	(2,132)		
Two years later		(2,337)	(2,308)	(2,496)	(2,442)	(2,459)	(2,653)	(2,673)	(2,495)			
Three years later		(2,465)	(2,447)	(2,654)	(2,602)	(2,618)	(2,813)	(2,876)				
Four years later		(2,594)	(2,606)	(2,770)	(2,724)	(2,756)	(3,010)					
Five years later		(2,700)	(2,703)	(2,869)	(2,823)	(2,851)						
Six years later		(2,749)	(2,762)	(2,914)	(2,906)							
Seven years later		(2,772)	(2,782)	(2,950)								
Eight years later		(2,789)	(2,791)									
Nine years later		(2,798)										
Estimate of gross ultimate claims												
At end of accident year		2,902	2,817	2,974	3,060	2,958	3,117	3,428	3,302	3,176	3,694	
One year later		2,838	2,756	3,070	3,035	2,918	3,304	3,415	3,391	3,129		
Two years later		2,847	2,873	3,076	3,012	3,067	3,368	3,441	3,487			
Three years later		2,916	2,872	3,004	3,076	3,061	3,366	3,420				
Four years later		2,883	2,806	3,041	3,080	3,037	3,324					
Five years later		2,851	2,831	3,019	3,062	3,026						
Six years later		2,856	2,826	3,011	3,064							
Seven years later		2,853	2,819	3,012								
Eight years later		2,854	2,818									
Nine years later		2,860										
Estimate of gross ultimate claims		2,860	2,818	3,012	3,064	3,026	3,324	3,420	3,487	3,129	3,694	
Cumulative payments		(2,798)	(2,791)	(2,950)	(2,906)	(2,851)	(3,010)	(2,876)	(2,495)	(2,132)	(1,740)	
Gross outstanding claims provisions	2,219	62	27	62	158	175	314	544	992	997	1,954	7,504
Effect of discounting	(946)	(22)	—	—	—	—	—	—	—	—	—	(968)
Present value recognised in the statement of financial position	**1,273**	**40**	**27**	**62**	**158**	**175**	**314**	**544**	**992**	**997**	**1,954**	**6,536**

Notes to the financial statements (continued)

(ii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Net cumulative claim payments												
At end of accident year		(1,541)	(1,458)	(1,447)	(740)	(776)	(840)	(899)	(753)	(720)	(868)	
One year later		(2,087)	(1,954)	(1,755)	(1,020)	(1,038)	(1,052)	(1,197)	(1,097)	(1,051)		
Two years later		(2,260)	(2,031)	(1,856)	(1,104)	(1,064)	(1,150)	(1,301)	(1,223)			
Three years later		(2,313)	(2,084)	(1,920)	(1,119)	(1,143)	(1,229)	(1,401)				
Four years later		(2,367)	(2,148)	(1,940)	(1,179)	(1,203)	(1,324)					
Five years later		(2,403)	(2,174)	(1,991)	(1,228)	(1,249)						
Six years later		(2,409)	(2,199)	(2,007)	(1,269)							
Seven years later		(2,416)	(2,209)	(2,012)								
Eight years later		(2,425)	(2,214)									
Nine years later		(2,429)										
Estimate of net ultimate claims												
At end of accident year		2,848	2,597	2,725	1,359	1,302	1,383	1,661	1,557	1,555	1,784	
One year later		2,722	2,547	2,083	1,329	1,261	1,470	1,660	1,556	1,475		
Two years later		2,723	2,262	2,084	1,317	1,353	1,492	1,668	1,586			
Three years later		2,468	2,257	2,053	1,360	1,345	1,493	1,658				
Four years later		2,443	2,225	2,079	1,349	1,333	1,478					
Five years later		2,429	2,238	2,064	1,340	1,327						
Six years later		2,432	2,233	2,055	1,341							
Seven years later		2,434	2,227	2,042								
Eight years later		2,434	2,228									
Nine years later		2,436										
Estimate of net ultimate claims		2,436	2,228	2,042	1,341	1,327	1,478	1,658	1,586	1,475	1,784	
Cumulative payments		(2,429)	(2,214)	(2,012)	(1,269)	(1,249)	(1,324)	(1,401)	(1,223)	(1,051)	(868)	
Net outstanding claims provisions	408	7	14	30	72	78	154	257	363	424	916	2,723
Effect of discounting	(154)	2	—	—	—	—	—	—	—	—	—	(152)
Present value recognised in the statement of financial position	**254**	**9**	**14**	**30**	**72**	**78**	**154**	**257**	**363**	**424**	**916**	**2,571**

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. Disposals are dealt with by treating all outstanding and incurred by not reported claims of the disposed entity as 'paid' at the date of disposal.

The loss development tables above include information on asbestos and environmental claims provisions from business written more than 10 years ago. The undiscounted claims provisions, net of reinsurance, in respect of this business at 31 December 2022 were £63 million *(2021: £63 million).*

(d) Provision for unearned premium

The following changes have occurred in the provision for unearned premiums during the year:

	Note	2022 £m	2021 £m
Carrying amount at 1 January		**2,862**	2,646
Premiums written during the year	2	**6,130**	5,762
Less: Premiums earned during the year		**(5,936)**	(5,534)
Changes in UPR recognised as an expense	2	**194**	228
Foreign exchange rate movements		**9**	(12)
Other movements		**4**	—
Carrying amount at 31 December		**3,068**	2,862

Notes to the financial statements (continued)

22. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2022 £m	2021 £m
Outstanding claims provisions	**3,009**	2,842
Provision for claims incurred but not reported	**956**	1,260
Provisions for liability adequacy	**—**	1
	3,965	4,103
Provisions for unearned premiums	**1,680**	1,570
Total at 31 December	**5,645**	5,673
Expected to be recovered in less than one year	**2,287**	1,963
Expected to be recovered in more than one year	**3,358**	3,710
	5,645	5,673

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £816 million *(2021: £329 million)* as a result of the discounting of latent claims and structured settlements.

Recoveries are expected from the Company's reinsurers in respect of COVID-19 related business interruption claims through the Company's catastrophe excess of loss reinsurance treaties. The extent to which reinsurance responds in the manner the Company expects remains an area of some uncertainty, and failure to recover reinsurance in line with expectations could lead to a material increase in the Company's reported net liability, as information develops further and as legal and regulatory interpretations throughout the industry evolve and clarify the criteria for eligible recoveries.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2022 £m	2021 £m
Carrying amount at 1 January		**4,103**	4,015
Impact of changes in economic assumptions		**(449)**	(19)
Reinsurers' share of claim losses and expenses:			
Incurred in current year		**1,909**	1,621
Released in prior years		**150**	52
Reinsurers' share of incurred claim losses and expenses		**1,610**	1,654
Less:			
Reinsurance recoveries received on claims:			
Incurred in current year		**(873)**	(728)
Incurred in prior years		**(895)**	(818)
Reinsurance recoveries received in the year	3	**(1,768)**	(1,546)
Unwind of discount		**5**	—
Change in reinsurance asset recognised as (expense)/income		**(153)**	108
Foreign exchange rate movements		**15**	(20)
Carrying amount at 31 December		**3,965**	4,103

Notes to the financial statements (continued)

(ii) Reinsurers' share of the provision for unearned premiums

	Note	2022 £m	2021 £m
Carrying amount at 1 January		**1,570**	1,447
Premiums ceded to reinsurers in the year	2	**3,335**	3,142
Less: Reinsurers' share of premiums earned during the year		**(3,229)**	(3,013)
Changes in reinsurers' share of provisions for unearned premium recognised in income	2	**106**	129
Foreign exchange rate movements		**4**	(6)
Carrying amount at 31 December		**1,680**	1,570

23. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable in more than one year are £31 million *(2021: £nil)* and in less than one year are £1 million *(2021: £2 million).*

The Group relief asset of £142 million *(2021: £142 million)*, included in receivables (note 16), relates to potential group liabilities in respect of EU dividends. This comprises £nil expected to be receivable in less than one year *(2021: £nil)* and £142 million expected to be recoverable in more than one year *(2021: £142 million)*. Further details are included within related party transactions (note 35).

(b) Deferred tax

(i) The net deferred tax asset arises on the following items:

	2022 £m	2021 £m
Unused losses and tax credits	**167**	114
Accelerated capital allowances	**2**	2
Provisions and other temporary differences	**4**	4
Pensions and other post retirement obligations	**(5)**	(5)
Net deferred tax asset	**168**	115

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

	Note	2022 £m	2021 £m
Net deferred tax asset at 1 January		**115**	71
Amounts credited to the income statement	7(a)(i)	**53**	44
Net deferred tax asset at 31 December		**168**	115

The Company has unrecognised losses of £420 million *(2021: £606 million)* to carry forward indefinitely against future taxable income. This comprises £195 million of unused trading losses *(2021: £377 million)* and £225 million of capital losses *(2021: £229 million).*

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. Management consider that a five year forecast is appropriate, based on the Company's Board approved Plan.

24. Provisions

(a) Carrying amounts

	2022 £m	2021 £m
Property provisions	—	12
Other provisions	**14**	7
Restructuring provisions	—	2
Total provisions	**14**	21

Property provisions relate to provisions for dilapidations. Restructuring provisions related to previous ongoing programmes in the UK which have now ceased.

Notes to the financial statements (continued)

(b) Movements in restructuring and other provisions

	2022			2021		
	Restructuring provisions	Other provisions	Total	Restructuring provisions	Other provisions	Total
	£m	£m	£m	£m	£m	£m
At 1 January	**2**	**19**	**21**	2	12	14
Additional provisions	**—**	**—**	**—**	—	7	7
Utilised during the year	**(2)**	**(2)**	**(4)**	—	—	—
Releases	**—**	**(3)**	**(3)**	—	—	—
At 31 December	**—**	**14**	**14**	2	19	21

	2022	2021
	£m	£m
Expected to be settled in less than one year	**—**	2
Expected to be settled in more than one year	**14**	19
	14	21

25. Pension obligations

(a) Introduction

The Group operates a number of defined benefit and defined contribution pension schemes. Staff whose costs are recharged to the Company are members of the Aviva Staff Pension Scheme. They receive benefits on either a defined benefit or a defined contribution basis. New entrants join the defined contribution section of the scheme, as the defined benefit sections of the scheme is now closed.

Full details of the Group's pension arrangements are given in note 49 of the Aviva plc Annual Report and Accounts 2022.

(b) Charges to the income statement

The total costs of pension schemes recharged to the Company gross of reinsurance were:

	2022	2021
	£m	£m
Defined benefit scheme	**—**	32
Defined contribution scheme	**25**	24
Total pension costs	**25**	56

There were no significant contributions outstanding or prepaid at either 31 December 2022 or 2021. The costs of the defined contribution pension scheme are included within other expenses in note 3.

Notes to the financial statements (continued)

26. Payables and other financial liabilities

	Note	2022 £m	2021 £m
Payables arising out of direct insurance		**171**	159
Payables arising out of reinsurance operations		**209**	173
Bank overdrafts	30(b)	**448**	400
Derivative liabilities	33	**396**	266
Obligations for repayment of cash collateral received		**169**	11
Amounts due to subsidiaries	35(a)(viii)	**73**	65
Amounts due to other Group companies	35(a)(viii)	**3,732**	3,588
Loans due to parent	35(a)(ii)	**294**	281
Other payables		**42**	5
Lease liabilities		**22**	38
Total at 31 December		**5,556**	4,986
Expected to be settled within one year		**2,624**	2,072
Expected to be settled in more than one year		**2,932**	2,914
		5,556	4,986

27. Other liabilities

	2022 £m	2021 £m
Deferred income	**23**	22
Reinsurers' share of deferred acquisition costs	**344**	323
Accruals	**200**	324
Other liabilities	**288**	231
Total at 31 December	**855**	900
Expected to be settled within one year	**855**	900
Expected to be settled in more than one year	**—**	—
Total at 31 December	**855**	900

Accruals includes the £40 million impact of the fair value pledge provided to UK Health policyholders in recognition of the impact COVID-19 had on the ability for policyholders to access treatment *(2021: £95 million)*.

28. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 21 gives details of the estimation techniques used in determining the general business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. 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

The removal of the majority of government restrictions related to COVID-19 across the Group's markets has led to claims frequency increasing to and stabilising at more normal levels, but there continues to be a significant degree of uncertainty in relation to business interruption claims arising from COVID-19.

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 will be affected by the final rulings. The Court ruled in favour of the parties on different issues, and all parties have appealed the majority of the decisions. The judgment has been carefully considered and the potential impact on claims related to business interruption policies assessed, noting that significant uncertainty remains due to the appeals made to the Court of Appeal.

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

In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in 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. 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 and the availability of legacy reinsurance, the ultimate cost cannot be determined with certainty. In part these costs are estimated with consideration of market information published by the Institute and Faculty of Actuaries.

Notes to the financial statements (continued)

(d) Regulatory Compliance

The FCA and the PRA regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. 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. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

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.

Any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. 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 and investment business, the Company may become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties. There are a number of charges registered over the assets of the Company in favour of other Group companies or third parties.

The Company has guaranteed the property-related obligations of certain other Group companies. In the opinion of the directors, no material loss will arise in respect of these guarantees.

The Company pays contributions to levy schemes in several countries in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

Although the Company's direct subsidiary Aviva Insurance Services UK Limited disposed of its 67% holding in IQUO Limited ("IQUO") in November 2022, it retains an exposure to HMRC for VAT liabilities related to its prior holding. It has been identified that IQUO may not have been eligible to be included in the Aviva VAT group for the whole of the period it was treated as a member and the Company has agreed to indemnify IQUO for any resultant liabilities. At 31 December 2022, the Company held a balance sheet provision of £6 million, representing its best estimate of the likely liability and associated costs arising from this exposure. There is potential for the actual costs to be higher or lower than this amount once HMRC responds, but this is not expected to lead to a material variance.

29. Commitments

Capital commitments

This note gives details of the Company's commitment to capital expenditure which has not been recognised in the financial statements. See note 13 for information on the Company's lease commitments. In 2022, the Company committed to £121 million (2021: £nil) of capital expenditure in relation to certain private equity vehicles.

Notes to the financial statements (continued)

30. Statement of cash flows

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

	Note	2022 £m	2021 £m
Profit before tax		**128**	300
Adjustments for:			
Loss/(profit) on the sale of:			
Subsidiaries	10	**1**	(3)
Investments	2	**597**	36
Fair value (gains)/losses on:			
Investment property	2	**38**	(55)
Investments	2	**104**	135
Impairment of subsidiaries	3	**6**	14
Impairment of property and equipment	11	**1**	7
Depreciation of property and equipment	11	**6**	10
Amortisation of:			
Premium/discount on debt securities		**12**	12
Intangible assets	3	**45**	42
Unwind of discount	21(b)(iii), 22(c)(i)	**—**	—
Change in economic assumptions on net claims reserves	21(b)(iii), 22(c)(i)	**(69)**	42
		741	240
Changes in working capital:			
Increase in reinsurance assets		**(416)**	(256)
Increase in deferred acquisition costs and prepayments[1]		**(103)**	(123)
Increase in insurance liabilities		**654**	479
(Decrease)/increase in other assets and liabilities		**(135)**	44
		—	144
Net disposals/(purchases) of operating assets:			
Net disposals of investment property	12	**31**	136
Net purchases of financial investments		**(966)**	(1,354)
		(935)	(1,218)
Total cash used in operating activities		**(66)**	(534)

[1]In the year ended 31 December 2022, capitalised costs relating to internally generated intangible assets under development totalled £29 million and have been presented within cash flows used in investing activities. In 2021, these costs totalled £23 million and are presented within changes in working capital, increase in deferred acquisition costs and prepayments.

Purchases and sales of investment property and 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:

	Note	2022 £m	2021 £m
Cash at bank and in hand		**140**	151
Cash equivalents		**987**	1,906
		1,127	2,057
Bank overdrafts	26	**(448)**	(400)
		679	1,657

Notes to the financial statements (continued)

31. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market 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 measures its capital requirements under the Solvency II regime.

(b) Capital management

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 policyholders and 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.

(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. 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 32) 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 2022 the Company's estimated own funds under Solvency II were £1.7 billion *(2021: £2.2 billion)*. 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

	Note	2022 £m	2021 £m
Equity shareholders' funds		**1,803**	2,458
Subordinated debt	26	**294**	281
Total capital		**2,097**	2,739

Notes to the financial statements (continued)

32. Risk management

Risk Environment

During the year, the global economy has experienced elevated inflation, rising interest rates and stagnating economic growth. Expectations for 2023 are that interest rates will see further rises and we are closely monitoring our liquidity position due to the need to post collateral on interest rate swaps (due to interest rate yield curve rises). The Bank of England expects the UK economy to remain in recession throughout 2023 and the first half of 2024, with GDP expected to recover only gradually thereafter. This will increase the risk of credit defaults and rating downgrades. Affordability is an increasing concern to trading due to the economic climate, and will impact all customers, including relatively affluent customers. Customer experience and retention will continue to require close monitoring. Continued heightened geo-political tensions, specifically over the conflict in the Ukraine, and the potential for further disruption to energy supplies are an additional source of uncertainty for financial and commodity markets, impacting on the peak and duration of inflation and interest rates.

There remains uncertainty over the outcome from continuing COVID-19 business interruption claims litigation and the impact on the Company, and consequential strains of UK public healthcare and customer demand for private medical insurance.

The Company continues to maintain strong solvency and liquidity positions and is resilient to a broad range of more likely to extreme stresses to which it could become exposed to and maintains a set of plausible and timely management actions to mitigate any impacts and, where feasible, prompt pre-emptive activity or augment the understanding of the impacts of particular risks.

In addition to this, in response to the increased threat of malware/ransomware attacks seen across the world the protection level of anti-malware security controls has been increased, threat intelligence data continually monitored and security controls updated to maintain protection against new and emerging ransomware variants.

The Group remains committed to supporting a low carbon economy that will improve the resilience of our 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 are acting now to mitigate and manage the impact of climate change on the business. The Group calculates a Climate Value at Risk ("VaR") against the Intergovernmental Panel on Climate Change ("IPCC") 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.

(a) Risk Management Framework ("RMF")

The Company's RMF has a key role in supporting the business to deliver its purpose for our customers, our people and our shareholder, helping the business discover, predict, understand and manage our risks, thereby maintaining a safe risk environment. The RMF comprises the system of governance, including Risk Policies and Business Standards, risk management processes, Risk Appetite Framework ("RAF"), risk oversight committees (both Board and Management) and clearly defined roles and responsibilities along with 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 ("SST").

The Company's RAF outlines the risks that the Company selects and manages in pursuit of return, the risks the Company accepts and retains a moderate level of and the risks the Company actively avoids or takes action to mitigate as far as practical. It comprises:

- Risk preferences: qualitative statements, that express where the business prefers to take risk (or else accept or avoid) and why, applied to individual key risk types (e.g. GI Reserving and Inflation).
- Risk appetites: overarching statements, metrics and thresholds that express the level of risk the business is willing to accept. The Company has risk appetites for Solvency, Liquidity, Operational, Climate and Conduct risk. Risk appetites are approved annually by the Board and monitored at least quarterly by relevant management committees.
- Risk tolerances: 'hard' limits that may constrain specific risk-taking activities for the most material (i.e. GI Catastrophe and macroeconomic risks) or volatile and unrewarded (i.e. interest rate) individual risk types or combinations of risk type. These are approved annually by the Board and monitored at least quarterly by relevant management committees. Within the Operational Risk and Control Management ("ORCM") Framework, there are operational risk tolerances which are set for individual operational risk types.
- Risk triggers: 'soft' thresholds used to monitor the capital exposure for other individual risk types (not covered by a Risk Tolerance) and are set annually by Management in line with the business planning process and monitored at least quarterly by the relevant management committees.
- Risk limits: quantify more granular limits for specific defined risk exposure (e.g. maximum credit exposure limits to particular counterparties).

To promote a consistent and rigorous approach to risk management across the business, the Company has adopted a number of Risk Policies and Business Standards. The Risk Policies set out the Board's risk strategy appetite for risk and its expectations in respect of the management of risk while the Business Standards set out the mandated controls which together with any local controls aim to keep key operational risks within tolerance. The Chief Executive Officer ("CEO") makes an annual attestation that the system of governance and internal controls are effective and fit for purpose for the Company throughout the year and this declaration is supported by an opinion from the Chief Risk Officer ("CRO").

A variety of tools and processes are available to support risk identification; both bottom up and top down, and while run separately, these are designed to complement each other and are used to generate risk reports which are shared with the relevant Risk Committees. The Top-Down Risk Assessment ("TDRA") which is facilitated by the Risk Function, with input from Management, focuses on identifying both proximate and emerging risks from events outside AIL which are considered primarily beyond AIL's influence and control. Conversely, the Bottom up Risk and Control Self Assessment ("RCSA") which is owned by Management with challenge from the Risk Function focuses on operational risks, that arise from within internal processes, systems or people and which might prevent the business from achieving its objectives.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile with consideration to the risk management actions available. A range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests are undertaken 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").

Aviva staff on behalf of the Company are involved in the management and mitigation of risk, with the RMF embedded in the day-to-day management and decision-making processes. The 'three lines of defence model' is adopted by the Company and the Group (as required by the RMF policy). First line (the Business) is accountable for the management of all risks relevant to the business of the Company, including the implementation of the RMF and embedding of the risk culture. The second line (Risk Function) is responsible for providing independent objective quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the RMF. The third line (Internal Audit) provides an independent assessment of the RMF and internal control processes.

The Board is responsible for setting the Company's risk preferences, risk appetites, risk tolerances and monitoring the establishment and operation of prudent and effective controls in order to assess and manage the risks associated with the Company's operations. The Board Risk Committees assist it in carrying out these activities and in its oversight of risk and management across the Company. The Board delegate "day-to-day" management to the CEO, including risk management and responsibility for implementation of the Risk Policies and Business Standards. Management committees assist the Company's Executive Committee in the discharge of their delegated authorities and their accountabilities within the Aviva Governance Framework and in relation to their defined regulatory responsibilities. The Company's Executive Risk Committee ("ERC") provides formal oversight of all risks. The other management committees comprise the Asset Liability Committee ("ALCO"), which focuses on insurance and financial risks, the Reserves and Projection Committee, which monitors claims cost projections and the Insurance Committee which assists in the management of specific areas of insurance risk. These committees are sub-committees of the Executive Risk Committee to further support the CRO and other members of this committee in the discharge of their defined accountabilities and regulatory accountabilities. The Operational Risk and Conduct Committee ("ORCC") was retired in July 2022 and the CRO responsibilities were merged with the ERC.

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

(b) Credit risk

Credit risk is the risk of loss or adverse outcomes due to a third-party default event or a change to third party credit standings. 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 shareholders. 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, bank deposits, derivative and securities financing counterparties, insurance and reinsurance counterparties, and Group counterparties to inter-company loans and receivables, and indirectly by guaranteeing the obligations of certain other Group companies (see note 28(e) for further information).

The Company's credit risk management processes (including limits frameworks) comply with the Aviva Group credit limit framework. ALCO oversees financial risks including credit risk and ensures detailed reporting and monitoring of exposures against pre-established risk criteria.

The Company has minimal direct investment exposure to Russia and Ukraine, and no exposure to Belarus.

(i) Financial exposures to Group companies

The Company has significant financial exposure to reinsurance assets and 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 loans, 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.

(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. "Not rated" assets capture assets not rated by external ratings agencies. The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings. 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 R.

31 December 2022	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Debt securities	**558**	**1,187**	**564**	**462**	—	—	**2,771**
Reinsurance assets	—	**5,263**	**361**	**7**	**6**	**8**	**5,645**
Derivative assets	—	—	—	—	—	**563**	**563**
Other investments	—	—	—	—	—	**1,787**	**1,787**

31 December 2021	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Debt securities	657	1,465	454	249	—	—	2,825
Reinsurance assets	—	5,379	263	6	—	25	5,673
Derivative assets	—	—	—	—	—	131	131
Other investments	—	—	—	—	—	326	326

Notes to the financial statements (continued)

To facilitate comparison with entities applying IFRS 9 in full (see accounting policy A and note 14(c)), the table below analyses the Company's financial instruments, which are considered to have contractual terms that are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding, by credit rating at the reporting date:

SPPI financial exposure by credit ratings

31 December 2022	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Receivables	—	—	**1,025**	**94**	—	**1,645**	**2,764**
Cash and cash equivalents	—	—	—	—	—	**224**	**224**
Accrued income and interest	—	—	—	—	—	**9**	**9**

31 December 2021	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Receivables	—	—	911	89	—	1,627	2,627
Cash and cash equivalents	—	—	—	—	—	226	226
Accrued income and interest	—	—	—	—	—	6	6

The Company's maximum exposure to credit risk of financial assets, without taking collateral, is represented by the carrying value of the financial instruments in the statement of financial position plus financial guarantees given to other Group companies (note 28(e)). These comprise debt securities, reinsurance assets, derivative assets, other investments, receivables and cash and cash equivalents. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 15), reinsurance assets (note 22), receivables (note 16) and cash and cash equivalents (note 30(b)). The collateral in place for these credit exposures is disclosed in note 34.

(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 is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Company operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. Exposures are actively monitored by the ALCO of which the Chief Financial Officer and Chief Risk Officer are members, with escalation to the Risk Committee as appropriate.

(iv) Reinsurance credit exposures

The Company's largest intra-group reinsurance counterparty is AIIL through the quota share reinsurance ceded to AIIL. At 31 December 2022, the reinsurance asset recoverable from AIIL, excluding the unearned premium provision, was £2,551 million *(2021: £2,477 million)*. The credit exposure has been partially mitigated by agreeing to withhold a significant portion of the balance due to AIIL (see note 35(a)(iii)).

The Company's largest external reinsurance counterparty is to the Swiss Reinsurance Company Limited (including its subsidiaries and affiliated companies). At 31 December 2022 the reinsurance asset recoverable, excluding the unearned premium provision, is £655 million *(2021: £697 million)*. This exposure is partially collateralised by a portfolio of highly rated assets held by Swiss Reinsurance Company Limited amounting to £349 million *(2021: £349 million)*.

(v) Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. This risk is generally mitigated through holding collateral for most trades. Residual exposures are captured within the Company's credit management framework.

(vi) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policy R. The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired.

		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value
31 December 2022	£m	£m	£m	£m	£m	£m	£m
Debt securities	**2,770**	—	—	—	—	—	**2,770**
Reinsurance assets	**5,645**	—	—	—	—	—	**5,645**
Derivative assets	**563**	—	—	—	—	—	**563**
Other investments	**1,224**	—	—	—	—	—	**1,224**
Receivables	**3,159**	**58**	**21**	**26**	**8**	—	**3,272**

Notes to the financial statements (continued)

		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value
31 December 2021	£m	£m	£m	£m	£m	£m	£m
Debt securities	2,825	—	—	—	—	—	2,825
Reinsurance assets	5,673	—	—	—	—	—	5,673
Derivative assets	131	—	—	—	—	—	131
Other investments	326	—	—	—	—	—	326
Receivables	3,030	42	17	16	7	—	3,112

Receivables includes a loan due from parent of £500 million *(2021: £500 million)*, loans due from subsidiaries of £508 million *(2021: £485 million)* and group relief of £142 million *(2021: £142 million)*.

(c) Market risk

Market risk is the risk of loss or adverse outcomes due directly or indirectly to 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 risks 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) Equity price risk

The Company is subject to direct equity price risk arising from changes in the market values of its equity securities portfolio.

The Company's investment limits and investment regulations require that it holds diversified portfolios of assets thereby reducing exposure to individual equities. The Company's primary exposure is to publicly traded equities albeit it does also have some modest exposure to private equity investments. Equity risk is also managed using a variety of derivative instruments, primarily via the deployment of Put Options. In order to meet the Company's targets for reducing the carbon intensity of investments by 25% by 2025, the Company also adheres to a Carbon Reduction and Responsible Investment Policy, approved by the Board in March 2021.

Sensitivity of profit and shareholders' equity to changes in equity prices is given in section (h)(ii) 'Risk and capital management' below.

(ii) Property price risk

The Company is subject to property price risk directly due to holdings of investment properties in a variety of locations and indirectly through investments in property investment vehicles. Investment in property managed by the Company is subject to regulations on investments, liquidity requirements and the expectations of policyholders.

At 31 December 2022, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity of profit before tax and shareholders' equity to changes in property prices is given in section (h)(ii) 'Risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed interest securities and their movement relative to the value placed on the insurance liabilities. The Company seeks to match assets to liabilities and uses interest rate derivatives to manage its interest rate risk tolerance.

The Group launched a formal programme of change activity in 2019 to manage the transition to alternative risk-free rates from London Inter Bank Offered Rate ("LIBOR") settings.

As part of this, the Company has reviewed all financial instruments, engaged with counterparties to either transition to alternative risk-free rates or has exited positions where required. The Company has adhered to the International Swaps Derivatives Association ("ISDA") Fallback Protocol. All material LIBOR-related exposures were migrated to Sterling Over Night Index Average ("SONIA") in 2022 ahead of LIBOR cessation.

The Group has worked closely with UK regulators, impacted clients, industry experts and industry associations to ensure a smooth and transparent transition of the exposures. The Steering Committee for the programme is the in process of closing down following successful transition away from the LIBOR benchmark.

No change to the Company's risk management strategy has been required in response to the transition.

Sensitivity of profit before tax and shareholder funds to changes in interest rates is given in section (h)(ii) 'Risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Company's exposure to general insurance claims inflation 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 SST. The Company typically manages inflation risk through asset-liability matching and inflation-linked derivatives where appropriate and in accordance with its approved risk tolerances. In addition, in response to the increased inflationary pressure experienced throughout 2022, the Company implemented a fortnightly inflation oversight forum in Q2 to provide key decision makers with regular and timely information on the latest view of inflation (including the reach of supply chain disruption) and emerging trends to ensure all appropriate mitigating actions were being undertaken.

Notes to the financial statements (continued)

(v) Currency risk

The Company has exposure to currency risk primarily through its overseas investment assets in Aviva Canada Inc, AIIDAC (including inwards reinsurance) and its underwriting of global corporate & specialty business lines. The Company seeks to avoid currency risk and actively manages the position using derivatives where appropriate.

The Company's total equity deployment by currency (after the impact of hedging) is set out below. Where currencies have been hedged using cap or collar derivatives, only the remaining unhedged exposure has been presented. The parameters of caps and collars are managed such that adverse exposure to currency fluctuations on hedged positions is not significant.

31 December 2022	GBP £m	EUR £m	CAD £m	USD £m	Other £m	Total £m
Total equity	**1,601**	**23**	**226**	**41**	**(88)**	**1,803**

31 December 2021	GBP £m	EUR £m	CAD £m	USD £m	Other £m	Total £m
Total equity	2,180	103	232	(7)	(50)	2,458

(vi) Derivatives risk

Derivatives are used for efficient investment management, and risk hedging purposes and within policy guidelines agreed by the Board.

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.

(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 either in normal and/or stressed conditions.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a Financial Risk Policy and a Liquidity Business Standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities, derivative liabilities and accruals. Contractual obligations under operating capital commitments are given in note 29.

(i) Analysis of maturity of financial liabilities and insurance contract liabilities

The following table shows the Company's financial liabilities and insurance contract liabilities analysed by duration:

2022	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Insurance liabilities	**9,604**	**4,272**	**4,006**	**965**	**361**
Payables and other financial liabilities, excluding derivatives	**5,160**	**2,580**	**1,639**	**445**	**496**
Derivative liabilities	**396**	**44**	**124**	**58**	**170**
Accruals	**200**	**200**	**—**	**—**	**—**
Total contract liabilities	**15,360**	**7,096**	**5,769**	**1,468**	**1,027**

2021	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Insurance liabilities	9,463	3,814	3,830	1,013	806
Payables and other financial liabilities, excluding derivatives	4,720	2,041	1,523	445	711
Derivative liabilities	266	31	35	31	169
Accruals	324	324	—	—	—
Total contract liabilities	14,773	6,210	5,388	1,489	1,686

Notes to the financial statements (continued)

(ii) Analysis of maturity of financial assets and reinsurance 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. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets. The Company also has non-financial assets, such as direct investment property holdings of £202 million *(2021: £271 million)*, for which a maturity analysis has not been provided.

2022	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term £m
Debt securities	**2,770**	**170**	**885**	**1,715**	—
Equity securities	**111**	—	—	—	**111**
Other investments	**1,224**	**1,224**	—	—	—
Derivative assets	**563**	**147**	**27**	**389**	—
Reinsurance assets	**5,645**	**2,287**	**2,294**	**1,064**	—
Receivables	**3,272**	**2,122**	**142**	**1,008**	—
Cash and cash equivalents	**1,127**	**1,127**	—	—	—
Total financial assets	**14,712**	**7,077**	**3,348**	**4,176**	**111**

2021	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term £m
Debt securities	2,825	127	795	1,903	—
Equity securities	632	—	—	—	632
Other investments	326	326	—	—	—
Derivative assets	131	38	4	89	—
Reinsurance assets	5,673	1,963	2,171	1,539	—
Receivables	3,112	1,985	142	985	—
Cash and cash equivalents	2,057	2,057	—	—	—
Total financial assets	14,756	6,496	3,112	4,515	632

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

(e) General insurance risk

(i) Types of risk

The Company writes a balanced portfolio of general insurance risk (including personal motor; household; commercial motor; property and liability), as well as global exposure to corporate specialty risks. This risk is taken on, in line with our underwriting and pricing expertise, to provide an appropriate level of return for an acceptable level of risk. Underwriting discipline and a robust governance process is at the core of the Company's underwriting strategy. General insurance risk in the Company arises 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;
- Inadequate claims reserving assumptions;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and/or
- Inadequate reinsurance protection or other risk transfer techniques.

The Company has a preference for general insurance risk in measured amounts for explicit reward, in line with the Company's core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Company continues to be short-tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite are communicated via specific policy statements, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience.

The adequacy of the Company's general insurance claims provisions is overseen by the GI Reserve and Projections Committee. Actuarial claims reserving is conducted by the Company's actuaries, with periodic independent external reviews by consulting actuaries.

The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Reserving processes are further detailed in note 21.

(ii) Management of general insurance risks

The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of risk appetite. Various methodologies are in place to effectively manage exposures arising from specific perils and the Company analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving.

The capital model is used to assess the risks that the Company is exposed to, quantifying their impact and calculating appropriate capital requirements.

The management of insurance risk is overseen by specific senior management committees, namely the ALCO, the Insurance Committee and the GI Reserve and Projections Committee.

Provisions made for insurance liabilities are inherently uncertain. Due to this uncertainty, general insurance reserves are regularly reviewed by qualified and experienced actuaries in accordance with the Company's reserving framework. These and other key risks, including the occurrence of unexpected claims from a single source or cause and inadequate reinsurance protection/risk transfer, are subject to an overarching risk management framework and various mechanisms to govern and control our risks and exposures.

The Company recognises that the severity and frequency of weather-related events has the potential to adversely impact provisions for insurance liabilities and our earnings, with the result that there is some seasonality in our results from period to period. Large catastrophic (CAT) losses arising as a result of these events are explicitly considered in our economic capital modelling to ensure we are resilient to such CAT scenarios. The impact of actual weather-related losses compared to the expected losses based on the long-term average was 18% worse (*2021: 10% worse*) for the UK general insurance business.

The removal of the majority of government restrictions related to COVID-19 has led to claims frequency increasing to and stabilising at more normal levels, but there continues to be a significant degree of uncertainty in relation to business interruption claims arising from COVID-19.

On 17 October 2022, the High Court in the UK 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 will be affected by the final rulings. The Court ruled in favour of the parties on different issues, and all parties have appealed the majority of the decisions. The judgment has been carefully considered and the potential impact on claims related to business interruption policies assessed, noting that significant uncertainty remains due to the appeals made to the Court of Appeal.

The Company does not have material underwriting exposure to Russia and the Ukraine, and does not conduct operations in the affected region. All commercial underwriting lines with exposures above £1 million have been reviewed and all have clear war exclusions.

The conflict in Ukraine and ongoing disruption to global supply chains has resulted in heightened claims inflation during 2022 which is expected to persist into 2023 and has increased 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, our 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.

(iii) Reinsurance strategy

Significant reinsurance purchases are reviewed annually to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. The basis of these purchases is underpinned by analysis of capital, earnings and capital volatility, cash flow and liquidity. Detailed actuarial analysis is used to calculate the Company's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. The Company analyses natural catastrophe exposure using its own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the insurance and reinsurance industry.

The Company's largest reinsurance arrangements include a retrospective (both new and existing business) 50% quota share reinsurance arrangement with AIIL, with effect from 1 January 2016, and the reinsurance of most of the Company's UK latent reserves (including mesothelioma, industrial deafness and other long-tail risks) with the Swiss Reinsurance Company Limited, with effect from 1 January 2015.

(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. The Company has a very low appetite for operational risks which could result in material losses (direct or indirect), a financial misstatement or have a material negative impact on reputation, customers, employees or other stakeholders.

The Company's Operational Risk and Control Management Framework ("ORCM") integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk outside tolerance is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

The additional crisis management procedures invoked during 2020 to manage the Company's response to COVID-19 have been gradually removed or (where required for the continuation of the Company's effective response) transferred to "business as usual". This has included ongoing monitoring of risks related to extensive home working, such as cyber, data management and occupational health issues. The Company's overarching risk management and internal control system continues to respond to COVID-19 developments and remains intact through focusing on ensuring that the control environment remains robust in the current operating environment.

Areas of increased conduct risk have been identified in relation to the financial vulnerability of customers, product suitability and product value. In response, the Company has taken action to support the needs of different customer groups, and their local communities, including extensions of cover, payment deferrals and charitable donations. The value of products to customers is continuously reviewed with actions taken as appropriate. We continue to work closely with the FCA and the ABI to ensure that steps to support customers remain appropriate.

The Russia-Ukraine conflict has heightened the risk of cyber security attacks on the Company or its suppliers, in particular via denial of service attacks. Although to date no serious cyber security incidents have been reported, the Company has strengthened its perimeter controls. The Company has engaged with its suppliers to ensure they have put in place all reasonable measures to ensure that services to the Company remain unaffected.

Notes to the financial statements (continued)

The Company actively monitors social and other media in order to manage mis/disinformation about its business, its products, the employees of fellow subsidiaries engaged in its business, or its customers, should the Company be targeted by a hostile actor in the context of the situation in Ukraine or elsewhere, taking corrective media action if necessary.

The Company has in place systems and controls to ensure it does not provide general insurance to individuals subject to sanctions, including those arising from the Russia-Ukraine conflict, and that for any client relationships existing before the imposition of sanctions policies are cancelled.

Oversight of operational risk for the Company is undertaken by the Board.

(g) Climate change

The Company considers climate change to be a significant risk to our strategy and business model and its impacts are already being felt. Global average temperatures over the last five years have been the hottest on record. Despite the United Nations Framework Convention on Climate Change Paris Agreement, the current trend of increasing CO_2 emissions is expected to continue and in the absence of radical action by governments, global temperatures are likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts and windstorms) increase both in frequency and severity.

The Aviva Group is acting now through its Sustainability Ambition to mitigate and manage its impacts both today and in the future. The ambition is to lead the UK financial services sector in taking action on climate change, building stronger, more resilient communities and running ourselves as a sustainable business. Through these actions, resilience to climate-related transition, physical and liability risks continue to be built. The Company's principal risks impacted by climate change are credit risk, market risk, general insurance risk and operational risk.

The material climate-related impacts were described in the Prudential Regulation Authority (PRA) 2015 report 'The impact of climate change on the UK insurance sector' and are defined by the Aviva Group and the Company as follows:

Transition risks: relate to the business impact resulting from the transition to a low carbon economy. This may entail extensive policy, legal, technology, and market changes designed to mitigate climate change. As a result, depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

Physical risks: relate to the business impact arising from acute, abrupt and disruptive impacts such as more frequent and intensive storms, extreme heat and cold, floods, droughts and fires, as well as chronic gradual impacts such as higher than average temperatures, rises in sea levels and the spread of vector-borne diseases. The risk includes the effects directly resulting from events, such as damage to property, and those that may arise indirectly through subsequent events, such as the disruption of global supply chains or resource scarcity.

Litigation risks: relate to the business impact that could arise from parties who have suffered loss and damage from climate change and seek to recover losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some or all of the cost to insurance firms under third-party contracts.

Climate considerations continue to be integrated into the Company's strategy, planning, governance, disclosures and risk management processes. As part of this, the Company has integrated climate into its risk management framework and has qualitatively defined its climate risk appetite statement as:

"We have a very low appetite for climate-related risks which could have a material negative impact upon our balance sheet and business model as well as our customers and wider society. We actively seek to reduce our exposure over time to the downside risks arising from the transition to a low carbon economy. We seek to identify and support solutions that will drive a transition to a low-carbon, climate resilient economy. We seek to limit our net exposure to the more acute and chronic physical risks that will occur in the event the Paris Agreement target is not met. We actively avoid material exposure to climate litigation risks."

The Company's climate risk appetite statement is supported by quantitative hard and soft metrics which are aligned to the Aviva Group Sustainability Ambition and Company plan targets. The position against these metrics is reported on a regular basis to the Company's Board Committees and is considered (where applicable) within key business decisions.

The materiality and time horizon over which climate-related risks and opportunities affect our business depend on the specific insurance products, geographies and investments being considered. Notwithstanding that the impact on general insurance liabilities is mitigated by the short-term nature of the business, the ability to re-price annually, and by the Company's reinsurance programmes, the physical effects of climate change will most likely result in more risks and perils becoming either uninsurable or unaffordable over the longer term and the need for more urgent action increases.

Alongside actions taken by the Government, the insurance industry and the wider society, Aviva Group and the Company are playing a leading role in addressing climate change with a broad range of actions underway to deliver on its 2040 Net Zero (NZ) ambitions in Underwriting, Claims and Investments and 2030 NZ ambitions in Operations and Supply Chain, and by embedding consideration of climate and sustainability risks into the culture of the Company. Furthermore, as an insurer, the Company is able to influence customer behaviour through the coverage of products and services provided and continues to develop climate-conscious products and services to incentivise climate-positive behaviours.

For example, for personal motor customers the Company offers a number of propositions to increase the transition to more sustainable transport, this includes: the introduction of our carbon conscious car insurance, Aviva Zero, which offsets carbon emissions from driving or charging cars as standard; and the expansion of cover for Electric Vehicles and capabilities at the Company's in-house motor accident repair centres. For the Company's domestic property insurance customers; solar panels on residential roofs, air/ground source heat pumps and battery storage attract no additional premium.

For further details see the Aviva plc Climate-related Financial Disclosure 2022 report.

(h) 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. Management undertakes a quarterly review of risk, the output from which is a key input into the risk-based capital assessments. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance measurements 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. As such in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

(ii) Sensitivity results

Illustrative results of sensitivity testing for the Company's 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. See below for further details on the limitations of the sensitivity analysis.

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by ± 1%
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. The test allows for any consequential impact on liability valuations.
Equity/property market values	The impact of a change in equity/property market values by ± 10%
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in tables below:

Impact on profit before tax

31 December 2022	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	**15**	**(37)**	**(27)**	**44**	**(44)**	**(67)**	**(164)**
Net of reinsurance	**(39)**	**41**	**(13)**	**22**	**(22)**	**(36)**	**(83)**

Impact on shareholder's equity

31 December 2022	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	**15**	**(37)**	**(27)**	**45**	**(45)**	**(67)**	**(164)**
Net of reinsurance	**(39)**	**41**	**(13)**	**22**	**(22)**	**(36)**	**(83)**

Impact on profit before tax

31 December 2021	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	(75)	45	(19)	103	(105)	(61)	(161)
Net of reinsurance	(130)	151	(9)	52	(53)	(29)	(79)

Impact on shareholder's equity

31 December 2021	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	(75)	45	(19)	105	(105)	(61)	(161)
Net of reinsurance	(130)	151	(9)	53	(53)	(29)	(79)

The sensitivities in the above table are based on amounts included in the 2022 income statement and statement of financial position at 31 December 2022.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, 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.

Sensitivity to foreign exchange rates

A +/-10% change in Sterling to Canadian Dollar period-end foreign exchange rates would result in a change in total equity in the range of £25 million positive impact *(2021: £26 million positive)* and a £21 million adverse impact *(2021: £21 million adverse)* respectively. A +/-10% change in Sterling to Euro period-end foreign exchange rates would result in a change in total equity in the range of £3 million positive impact *(2021: £11 million positive)* and a £2 million adverse impact *(2021: £9 million adverse)* respectively. There were no material sensitivities in the Company's total equity to other foreign exchange rates in 2022 and 2021.

Notes to the financial statements (continued)

Limitations of sensitivity analysis

The tables above demonstrate the effect of an instantaneous change in a key assumption while other assumptions remain unchanged. In reality, changes may occur over a period of time and there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and 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 allocation and taking other protective action.

Other limitations in the above sensitivity analyses 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 interest rates move in an identical fashion.

Other than investments in subsidiaries and associates, assets are held at fair value in accordance with the relevant accounting policy. The majority of such assets are valued based on quoted market information or observable market data and the remaining assets recorded at fair value are based on estimates. 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. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change their fair value.

(i) Exit from the EU and the future regulatory framework

The Future Regulatory Framework Review will determine the post Brexit regulatory and policy settlement, which will have a direct bearing on the outcome of the UK Solvency II review. The UK and EU separate reviews of Solvency II continued through 2022. Both reviews could impact the amount of prudential capital the Company is required to hold.

Notes to the financial statements (continued)

33. Derivative financial instruments

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to market, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and 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 on a gross basis 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 ISDA (International Swaps and Derivatives Association, Inc.) 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. See note 34 Collateral for further information on collateral and net credit risk of derivative instruments.

(i) The Company's derivatives at 31 December 2022 and 2021 were as follows

			2022			2021
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m	£m	£m	£m
Foreign exchange contracts						
OTC						
Forwards	**2,891**	**119**	**(9)**	3,112	11	(17)
Interest rate contracts						
OTC						
Swaps	**5,452**	**415**	**(332)**	6,977	90	(161)
Exchange traded						
Futures	**159**	**8**	**—**	56	—	—
Equity/Index contracts						
OTC						
Options	**430**	**20**	**(6)**	498	26	(11)
Inflation linked contracts						
OTC						
Swaps	**411**	**2**	**(48)**	427	4	(77)
Total at 31 December	**9,343**	**563**	**(396)**	11,070	131	(266)

Fair value assets of £563 million *(2021: £131 million)* are recognised as derivative financial instruments in note 15, while fair value liabilities of £396 million *(2021: £266 million)* are recognised as derivative liabilities in note 26.

The Company's derivative risk management policies are outlined in note 32 Risk management.

(ii) The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities:

	2022	2021
	£m	£m
Within 1 year	**119**	46
Between 1 and 5 years	**128**	72
Between 5 and 15 years	**109**	83
Over 15 years	**179**	87
	535	288

Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of collateral receivable or repayable are included in notes 15 Financial Investments and 26 Payables and other financial liabilities respectively.

Notes to the financial statements (continued)

34. Collateral

The Company mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements to facilitate the Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty.

Derivative transactions requiring the Company or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, inflation swaps and forward foreign exchange contracts. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities.

The total amount of collateral received which the Company is permitted to sell or re-pledge in the absence of default was £nil *(2021: £nil)*. Collateral of £169 million *(2021: £11 million)* has been received related to balances recognised within payables and other financial liabilities in note 26.

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure. The fair values of collateral received approximate to their carrying amounts.

35. Related party transactions

(a) Related party transactions

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

(i) Loans receivable

Aviva Group Holdings Limited ("AGH") loan

As part of the restructuring carried out in 2013, a loan facility of £5.8 billion was put in place with the Company's immediate parent. The loan was originally secured on the UK Life and certain non-UK operations of the Group and has a final maturity date of December 2042.

The loan was restructured during 2021 as part of a wider restructuring of the Aviva Group, and in particular, additional loan repayments were made following the disposal by AGH of certain non-UK operations of the Group, reducing the balance to £500 million at 31 December 2021. The loan is now secured solely on the UK Life operations. The requirement for AGH to make annual repayments (£50 million p.a. until December 2026 with no rights of deferral) was removed under the restructuring and the balance at 31 December 2022 remained at £500 million.

The interest rate receivable on the loan was revised during 2021, as a result of interest rate benchmark reform. The loan's London Interbank Offered Rate (LIBOR) reference rate component has been transitioned to an equivalent Sterling Overnight Indexed Average (SONIA) rate plus a 46 basis points adjustment, to ensure the transition of the underlying risk free component is net neutral. Under the revised terms, the loan accrues interest at 12-month SONIA plus the 46 basis points adjustment plus a credit margin. The credit margin component was unchanged by the transition to SONIA and remained at 240 basis points. The credit margin component is reset every 5 years and was reset on 31 December 2022 to 200 basis points. This followed a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. The next reset of the credit margin is due on 31 December 2027.

Aviva Canada Inc. ("ACI") loans

In April 2015, following the partial return of capital on the Company's equity investment in ACI, the Company returned the proceeds back to ACI in the form of a subordinated unsecured loan of CAD 350 million. The loan has a carrying balance of £214 million *(2021: £204 million)* and a final maturity date of March 2045. In the event that ACI's minimum regulatory capital requirement falls below certain local trigger levels, ACI may redeem the loan in exchange for issuing equity whose aggregate value is equal to the principal amount outstanding on the loan.

In June 2016, the Company issued ACI a new subordinated unsecured loan of CAD 480 million. The loan has a carrying balance of £294 million *(2021: £281 million)* and matures in 2046.

The interest rate receivable on the ACI loans were revised during 2021, as a result of interest rate benchmark reform. The Canadian Dollar Offered (CDOR) reference rate component of both ACI loans was transitioned to an equivalent Canadian Overnight Repo Rate Average (CORRA) rate plus a 49 basis points adjustment, to ensure the transition of the underlying risk free components are net neutral. Under the revised terms, the ACI loans both accrue interest at 6-month CORRA plus the 49 basis points adjustment plus a credit margin. The credit margin components were unchanged by the transition to CORRA and remains 330 basis points for the CAD 350 million loan and 529 basis points for the CAD 480 million loan.

The maturity analysis of the related party loans receivable is as follows:

	2022 £m	2021 £m
Within 1 year	—	—
1-5 years	—	—
5-15 years	—	—
Over 15 years	**1,008**	985
Total	**1,008**	985
Effective interest rate	**5.5 %**	3.9 %

(ii) Loan payable

Loan due to AGH

In June 2016, the Company entered into a subordinated unsecured loan from AGH of CAD 480 million. The loan, with a carrying balance of £(294) million *(2021: £(281) million)* matures in 2046.

The interest rate payable on the loan was revised in 2021, as a result of interest rate benchmark reform. The loan's CDOR reference rate component was transitioned to an equivalent CORRA rate plus a 49 basis points adjustment, to ensure the transition of the underlying risk free component was net neutral.

Notes to the financial statements (continued)

Under the revised terms, the loan accrues interest at 6-month CORRA plus the 49 basis points adjustment plus a credit margin. The credit margin component was unchanged by the transition to CORRA and remains 474 basis points.

The maturity analysis of the related party loan payable is as follows:

	2022 £m	2021 £m
Over 15 years	**(294)**	(281)
Total	**(294)**	(281)
Effective interest rate	**6.9 %**	5.4 %

(iii) Quota share arrangement - Aviva International Insurance Limited ("AIIL")

The Company has a retrospective (both new and existing business) outwards 50% quota share reinsurance arrangement with AIIL covering the insurance business underwritten by the Company.

Under the terms of the reinsurance arrangement, the Company withheld the majority of the payment due to AIIL. The balance outstanding at 31 December 2022 was £3,667 million *(2021: £3,530 million)* and is included within amounts due to other Group companies in note 26. The amount due accrues interest, included within net investment income, set at a rate linked to the Company's net investment returns.

	2022 £m	2021 £m
Premiums ceded to reinsurers	**(2,795)**	(2,621)
Net earned premiums	**(2,707)**	(2,521)
Fee and commission income ceded	**(36)**	(32)
Net investment income ceded	**304**	(17)
Reinsurance claims paid	**1,629**	1,408
Change in reinsurance assets	**58**	164
Fee and commission expenses ceded	**682**	673
Other expenses ceded	**208**	230
Net result ceded	**137**	(95)

At 31 December 2022, the balances in the statement of financial position relating to this arrangement are:

	2022 £m	2021 £m
Reinsurance asset	**3,936**	3,770
Amounts due to other Group companies	**(3,667)**	(3,530)

(iv) Quota share arrangement - Gresham Insurance Company Limited

The Company has an inwards quota share reinsurance arrangement with its subsidiary undertaking, Gresham Insurance Company Limited ("Gresham"), with effect from 1 January 2006. The key terms are:

- 100% cession rate on premiums, claims and expense costs applied in respect of the underwriting year; and
- a requirement for Gresham to retain a percentage in relation to the Financial Services Compensation Scheme and Flood Re levies. The premiums, claims and expenses which have been reinsured into the Company under the arrangement are:

	2022 £m	2021 £m
Premiums earned	**96**	106
Claims incurred	**(60)**	(42)
Fee, commission and operating expenses	**(41)**	(63)
Net result	**(5)**	1

At 31 December 2022, the balances in the statement of financial position relating to this arrangement are:

	2022 £m	2021 £m
Insurance liabilities	**(92)**	(87)
Receivables arising out of reinsurance accepted	**65**	65
Deferred acquisition costs relating to reinsurance	**17**	20

Notes to the financial statements (continued)

(v) Quota share arrangement - Aviva Insurance Ireland Designated Activity Company ("AIIDAC")

On 1 February 2019, the Company entered into a retrospective (both expired and in-force business) inwards quota share reinsurance arrangement with AIIDAC as follows:

- 70% quota share arrangement in respect of general insurance risks arising in Ireland (reduced from 85% from 1 January 2022). The Company paid AIIDAC £140 million in cash consideration for the reduction in reinsurance cover and the Company's insurance liabilities and deferred acquisition costs were reduced accordingly;
- 85% quota share arrangement covering European Mobile Device Insurance business; and
- 100% quota share arrangement covering all other business transferred.

The premium, claims and expenses which have been reinsured into the Company under this arrangement are:

	2022 £m	2021 £m
Premiums earned	**342**	387
Claims incurred	**(170)**	(258)
Fee, commission and operating expenses	**(102)**	(131)
Net result	**70**	(2)

At 31 December 2022, the balances in the statement of financial position relating to this arrangement are:

	2022 £m	2021 £m
Insurance liabilities	**(885)**	(956)
Receivables arising out of reinsurance accepted	**56**	33
Deferred acquisition costs relating to reinsurance	**33**	34

(vi) Adverse reserve deterioration agreement - The Ocean Marine Insurance Company Limited

The Company has an inwards adverse reserve deterioration agreement with its subsidiary undertaking, The Ocean Marine Insurance Company Limited ("Ocean"). This agreement provides Ocean with an extra £1 billion of reinsurance cover to protect against circumstances in which its reinsurance arrangement with National Indemnity Company ("NIC") is exhausted or otherwise fails to satisfy claims. Ocean's reinsurance arrangement with NIC provides substantial protection in excess of its current gross insurance liabilities.

(vii) Retrocession reinsurance arrangement - Aviva Life and Pensions UK Limited

The Company had an arrangement with Aviva Life and Pensions UK Limited ("UKLAP"), a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements. The premiums and claims which have been reinsured to UKLAP under the arrangement are:

	2022 £m	2021 £m
Reinsurance share of claims incurred/(released)	**255**	(42)
Net result ceded	**255**	(42)

At 31 December 2022, the balance in the statement of financial position relating to this arrangement is:

	2022 £m	2021 £m
Reinsurance asset	**338**	593

(viii) Other transactions - dividend income and net interest payments from transactions with related parties and services provided to and by related parties

	2022				2021			
	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end
				£m				£m
Parent	**2**	**—**	**—**	**19**	13	—	—	16
Subsidiaries	**312**	**249**	**73**	**230**	221	223	65	195
Fellow subsidiaries	**304**	**559**	**3,732**	**12**	(15)	562	3,588	29
	618	**808**	**3,805**	**261**	219	785	3,653	240

Income earned from the Company's immediate parent of £2 million *(2021: £13 million)* relates to net interest on the loan receivable and the loan payable described in note 35(a)(i) & (ii).

Income earned from subsidiaries of £312 million *(2021: £221 million)* relates to dividends received of £279 million *(2021: £197 million)* and interest on the ACI loans receivable described in note 35(a)(i). Income earned in the year from fellow subsidiaries comprises net income received of £304 million *(2021: net income charged of £15 million)* relating to interest of £304 million *(2021: £17 million)* on the balance due under the quota share reinsurance arrangement with AIIL described in note 35(a)(iii).

Notes to the financial statements (continued)

Services provided to the Company include £6 million *(2021: £5 million)* inter-company management fees payable to fellow subsidiaries of the Group.

Expenses incurred include £303 million *(2021: £311 million)* relating to staff and pension costs incurred by Aviva Employment Services Limited including the pension costs detailed in note 25. The staff and pensions costs incurred by Aviva Employment Services Limited were recharged to the Company via Aviva Central Services UK Limited.

Expenses incurred also include £249 million *(2021: £245 million)* relating to facilities and other service charges from Aviva Central Services UK Limited and £110 million *(2021: £117 million)* of commission payments that were made to Aviva UK Digital Limited, an insurance intermediary and subsidiary of the Company, for the distribution of the Company's direct-to-customer service offering.

Expenses incurred also include other expenses of £140 million *(2021: £107 million)* which largely relate to claims and other operating costs recharged from subsidiaries, associates and fellow subsidiaries, offset by expenses recharged to subsidiaries.

Directors and key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to those available to all employees of the Group. In 2022 and 2021, other transactions with directors and key management personnel were not deemed to be significant either by size or in the context of their individual positions.

The net balance with Group companies for settlement of corporation tax assets and liabilities by group relief is disclosed in note 23.

Interim ordinary dividends of £329 million, £222 million and £298 million on the Company's ordinary shares were declared and settled in September, November and December 2022 respectively, all of which were settled in cash *(2021: dividends of £190 million and £352 million were declared and settled in February 2001 and December 2021 respectively)*.

The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof. The receivables and payables will be settled in accordance with normal contract terms.

(b) Key management compensation

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

	2022 £m	2021 £m
Short-term employee benefits	**10**	8
Termination benefits	**—**	1
Total	**10**	9

Details of directors' emoluments are given in note 5.

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in England.

(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, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

Notes to the financial statements (continued)

36. Related undertakings

The Company's Act 2006 requires disclosure of certain information about the Company's related undertakings which is set out in this note. Related undertakings comprise subsidiaries and associates.

The Company's related undertakings along with the country of incorporation, the registered address, the class of shares held and the effective percentage of equity owned at 31 December 2022 are listed below.

The direct related undertakings of the Company at 31 December 2022 are listed below:

Name of undertaking	Country of incorporation	Registered address	Share class	% held
Aviva Canada Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares, Class A & Class B Common Shares, Special Common Shares and New Common Shares	100%
Aviva Direct Ireland Limited	Ireland	Cherrywood Business Park, Dublin, D18 W2P5	Ordinary Shares	100%
Aviva Driving School Ireland Limited	Ireland	Cherrywood Business Park, Dublin, D18 W2P5	Ordinary Shares	100%
Aviva Insurance Ireland Designated Activity Company	Ireland	Cherrywood Business Park, Dublin, D18 W2P5	Ordinary Shares	100%
Aviva Investors E-RELI S.a.r.l	Luxembourg	2 rue du Fort Bourbon, L-1249, Luxembourg	SCSp	17%
Aviva Credit Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Insurance Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva UK Digital Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
The Ocean Marine Insurance Company Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
The Welsh Insurance Corporation Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Consumer Products UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Health UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Insurance UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva UKGI Investments Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Gresham Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
London and Edinburgh Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Solus (London) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Synergy Sunrise (Broadlands) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Polaris U.K. Limited	United Kingdom	4th Floor, New London House, 6 London Street, London, EC3R 7LP	Ordinary Shares	39%

Notes to the financial statements (continued)

The indirect related undertakings of the Company at 31 December 2022 are listed below:

Name of undertaking	Country of incorporation	Registered address	Share class	% held
Victoria Reinsurance Company Ltd	Barbados	c/o USA Risk Group (Barbados) Ltd., 6th Floor, CGI Tower, Warrens, St. Michael, BB22026	Common Shares	100%
9543864 Canada Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Aviva General Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Aviva Insurance Company of Canada	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Redeemable Preferred and Common Shares	100%
Aviva Warranty Services Inc	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Bay-Mill Specialty Insurance Adjusters Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Elite Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Preferred and Common Shares	100%
Insurance Agent Service Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Nautimax Ltd	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Class 1 Common Shares	100%
OIS Ontario Insurance Service Limited	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Pilot Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
S&Y Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Scottish & York Insurance Co. Limited	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Preferred and Common Shares	100%
Traders General Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Prolink Insurance Inc	Canada	150 King St West, Suite 2401, P.O. Box 16, Toronto ON M5H 1J9	Common A Shares	34%
Aviva Agency Services Inc.	Canada	555 Rue Chabanel Ouest, Bureau 900, Montreal QC H2N 2H8	Class A Common Shares	100%
Westmount West Services Inc.	Canada	Suite 1600, 925 W Georgia St, Vancouver BC V6C 3L2	Class A Ordinary Shares Class B Ordinary Shares	10% 10%
Healthcare Purchasing Alliance Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, England, NR1 3NG	Ordinary Shares	50%
Healthcode Limited	United Kingdom	Swan Court Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA	Ordinary Shares	20%

37. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2022 to the date of these financial statements. There has been one significant subsequent event during that period:

- On 5 January 2023, the Company's Board approved making a capital contribution to its subsidiary Gresham Insurance Company Limited, anticipated to be in the region of £60-£80 million and expected to be paid in the third quarter of 2023, in consideration for the issue of ordinary shares by Gresham Insurance Company Limited to the Company.