# Contents

# Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Direct Line Insurance Group plc (the "**Parent Company**") and its subsidiaries (the "**Group**") give a true and fair view of the state of the group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("**IFRSs**") as issued by the International Accounting Standards Board ("**IASB**");
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Company Statement of Comprehensive Income;
- the Consolidated and Parent Company Statement of Financial Position;
- the Consolidated and Parent Company Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 40 of the consolidated financial statements and related notes 1 to 14 on the Parent Company financial statements excluding the capital adequacy disclosures in note 3.5 calculated in accordance with the Solvency II regime that are marked as unaudited.

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

### 2. Basis for opinion

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

We are independent of the group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "**FRC's**") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The fees for the non-audit services provided to the Group and Parent Company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

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

## 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>– Valuation of insurance contract liabilities:<br>1) The frequency, severity and inflationary assumptions for bodily injury claims;<br>2) Periodic payment orders ("**PPOs**") inflation and discount rates; and<br>3) Third party recoveries on accidental damage claims.<br>– Valuation of illiquid investments:<br>1) Commercial real estate loans, infrastructure debt and private placement bonds; and<br>2) Investment property.<br>– Transition to IFRS 17.<br>– Past business reviews provisions.<br>Within this report, key audit matters are identified as follows:<br>Newly identified;<br>Increased level of risk;<br>Similar level of risk; and<br>Decreased level of risk. |
| **Materiality** | The materiality that we used for the Group financial statements was £24 million, which approximates to 1.0% of shareholders' equity. |
| **Scoping** | Our Group audit scoping included three entities being subject to a full scope audit and a further one entity being subject to an audit of specified account balances. These four entities represent the principal business units and account for 96% of the Group's shareholders' equity, 100% of the Group's insurance revenue and 100% of the Group's insurance contract liabilities. |
| **Significant changes in our approach** | During the year we have made the following changes to our audit approach:<br>a. We updated our key audit matters on the valuation of insurance contract liabilities to include third party recoveries on accidental damage claims;<br>b. We identified a new key audit matter on the transition to IFRS 17. Our key audit matter last year covered the disclosure of the impact of IFRS 17; and<br>c. We identified a new key audit matter on the past business reviews provisions. |

## 4. Conclusions relating to going concern

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

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

- We obtained an understanding of the internal controls relating to management's going concern assessment process;
- We assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Group;
- We assessed management's strategic plan and challenged management's underlying business plans and forecasts to support key forward-looking assumptions such as the Group's growth and discount rates given our understanding of the Group and its industry. This included assessing the impact of the sale of the brokered commercial business, the liquidity forecast, the 3-year structured 10% quota share arrangement and the partnership with Motability; and
- We evaluated management's stress test, independently performing sensitivity analysis to assess the impact of various scenarios on the Group's solvency headroom.

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

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

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

## 5. Key audit matters

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

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

### 5.1 Valuation of insurance contract liabilities

Refer to page 118 (Audit Committee report), pages 183 to 185 (Accounting policies - note 1.5), page 190 (Critical accounting judgements and key sources of estimation uncertainty – note 2.1) and pages 225 to 234 (Notes to the consolidated financial statements – note 20).

The Group's gross insurance contract liabilities total £5.2 billion (2022 restated: £4.6 billion) and represent the single largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to high levels of estimation uncertainty. Consequently, small changes in these methods or assumptions can materially impact the valuation of these liabilities. We have identified the following three key areas of focus for our audit given their significance to the Group's result and the high level of estimation uncertainty. We have also identified these as potential fraud risk areas.

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

**Key audit matter description**

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

Furthermore, reduced traffic volumes throughout accident years 2020 and 2021 and a return to normality during 2022 and 2023 increases inherent uncertainty underlying the estimation of the ultimate number of non-large bodily injury claims in the most recent cohorts of data. This uncertainty is amplified given the long-tailed nature of bodily injury claims. Additionally, the whiplash reform in May 2021 has impacted the frequency and severity mix of bodily injury claims and there continues to be inherent uncertainty.

Moreover, we have identified that inflationary assumptions have a significant impact on the valuation of bodily injury insurance contract liabilities and there is a significant level of estimation uncertainty inherent with these assumptions in light of the macroeconomic environment.

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

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

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

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

- Inspect and challenge the reserving process for bodily injury claims by assessing relevant documentation and enquiring with the Actuarial Director and his team;
- Inspect and challenge the Group's documented methodology and key assumptions, with particular reference to inflationary impacts. This included:
  a. Using our in-house reserving software to help us challenge any emerging claims trends;
  b. Conducting sensitivity testing on the methodology and assumptions used in the current year selections and challenging changes from the prior year;
  c. Comparing the Group's cost per claim and frequency diagnostics to market benchmarks and independent reserve review results;
- Enquire with the Actuarial Director and his team to inspect and challenge the Events Not in Data reserves ("**ENIDs**"), assessing whether the approach in setting the ENIDs are reasonable given economic and non-economic events. This includes leveraging third party economic studies to challenge the appropriateness of management's adverse scenarios;
- Assess and challenge the reasonableness of the risk adjustment included in the calculation to account for non-financial risks associated with claims by inspecting methodology and validation documentation; and
- Perform a 'stand back' test to challenge the reasonableness of the overall insurance contract liability estimate, in light of the level of uncertainties that existed at the reporting date.

**Key observations**

We concluded that the frequency, severity and inflationary assumptions used in the calculation of the bodily injury claims reserves are reasonable.

### 5.1.2. Periodical payment orders, inflation and discount rates

**Key audit matter description**
The Group is required to settle a proportion of large bodily injury claims as PPOs rather than lump sum payments. The valuation of PPOs has a material impact on the financial statements, with liabilities totalling £655.1 million (2022 restated: £643.2 million) on a discounted gross basis as detailed in note 20.

Given the ongoing uncertainty in the UK's inflation environment and investment markets, the selection of the inflation and discount rate assumptions is highly judgemental. The PPOs are sensitive to the economic assumptions selected and, for 31 December 2023, the Group valued PPOs using an inflation rate curve linked to the consumer price index (2022: inflation rate curve linked to the PRA published risk free rate). Additionally, the Group include an illiquidity premium in the discount rate. These assumptions represent a key source of estimation uncertainty for the Group, which increases the susceptibility of the balance to material misstatement due to error or fraud.

**How the scope of our audit responded to the key audit matter**
We gained a detailed understanding of management's process for setting these assumptions and obtained an understanding of the relevant controls on the setting of the inflation and discount rates, specifically the challenge and approval of these assumptions by the Reserving Committee.

We worked with our actuarial specialists to:

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

In addition, we worked with our valuations specialist to inspect and challenge the methodology and reasonableness of the illiquidity premium.

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

### 5.1.3 Third party recoveries on accidental damage claims

**Key audit matter description**
In 2022, the number of accidental damage paid recoveries for accident years 2020 to 2022 were significantly lower than prior years. This trend has continued in 2023 resulting in accidental damage recoveries not yet received from third parties by the end of December 2023 increasing significantly. This results in the overall accidental damage reserves being highly sensitive to the recovery rate assumptions used to estimate the reserves. These assumptions represent a key source of estimation uncertainty for the Group, which increases the susceptibility of the balance to material misstatement due to error or fraud.

**How the scope of our audit responded to the key audit matter**
We gained an understanding of management's process and relevant controls for setting these assumptions. We tested a sample of the third-party recoveries on accidental damage claims reported but not yet paid at the end of 2022 and 2023 to identify whether the amount recognised had been fully recovered by tracing the amount to the bank statement. If the amount had not been recovered, or had been partially recovered, we evaluated the reason for partial or non-receipt.

We worked with our actuarial specialists to:

- Assess the findings from the sample testing performed to consider the impact on the liability for incurred claims, including whether the findings are an indication of management bias, and challenge management where applicable.
- Inspect and challenge the reserving process undertaken for accidental damage recoveries claims by reviewing relevant documentation, benchmarking, and enquiring with the Actuarial Director and his team; and
- Inspect and challenge management's methodology, key assumptions, and their underlying rationale adopted.

**Key observations**
We concluded that the assumptions applied to estimate the third party recoveries on accidental damage claims are reasonable.

## 5.2 Valuation of illiquid investments

Refer to page 118 (Audit Committee report), page 187 (Accounting policies - notes 1.12 and 1.13), page 193 (Critical accounting judgements and key sources of estimation uncertainty – notes 2.3 and 2.4) and pages 224 and 238 (Notes to the consolidated financial statements – notes 18 and 24).

## 5. Key audit matters continued

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

**Key audit matter description**

Commercial real estate loans, infrastructure debt and private placement bonds are held at amortised cost on the balance sheet and represent a higher credit risk relative to the majority of the Group's investment portfolio. As detailed in disclosure note 24, the total value at 31 December 2023 is £430.7 million (2022 restated: £532.9 million).

In 2023, the Group transitioned to IFRS 9 Financial Instruments, which replaced the existing standard for financial instruments, IAS 39 Financial Instruments: Recognition and Measurement. The Group continues to recognise and measure these instruments at amortised cost, and these instruments continue to require the recognition of an impairment when an incurred loss event arises. Significant management judgement is required in determining if an incurred loss event has occurred and, in the instance an event has occurred, there is significant estimation uncertainty in determining the impairment charge.

There is a continuing risk of default or delinquency on these less liquid assets owing to high and sustained levels of uncertainty in the UK economy from increasing inflation rates and the cost-of-living crisis.

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

We obtained an understanding of the valuation and impairment processes of illiquid investments and tested the relevant controls. We attended the year end impairment review meeting to observe the operation of this key management review control.

In addition, we performed the following procedures:

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

**Key observations**

We considered the valuation of commercial real estate loans, infrastructure debt and private placement bonds to be reasonable.

### 5.2.2 Investment property

**Key audit matter description**

The investment properties held by the Group comprise of retail, retail warehouse, supermarkets, industrials, hotels and alternative properties. As noted in disclosure note 18, the total value at 31 December 2023 is £277.1 million (2022: £278.5 million).

Given the continued UK macroeconomic environment uncertainty from inflationary pressures and increased interest rates affecting the cost of debt, the methodology and assumptions used for valuing the investment property portfolio involves significant judgement, including the use of external valuation experts.

Valuation methodology for investment properties is subjective in nature and involves various key assumptions. The use of different valuation methodology and assumptions could produce significantly different estimates of fair value. With the volatility in the UK financial market, the property valuers can attach less weight to previous market evidence in determining a fair value. This leads to greater levels of estimation uncertainty in determining the valuation.

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

We obtained an understanding of, and tested, the relevant control related to the annual meeting with management's external valuation expert when management review and challenge the assumptions and methodologies used in determining the fair value.

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

**Key observations**

We considered the methodology and assumptions used for valuing the investment property portfolio to be reasonable.

### 5.3 Transition to IFRS 17

Refer to page 117 (Audit Committee report), pages 180 to 182 (Accounting policies – note 1.1), pages 190 to 193 (Critical accounting judgements and key sources of estimation uncertainty – note 2.1) and pages 225 to 234 and 250 to 252 (Notes to the consolidated financial statements – notes 20 and 40).

**Key audit matter description**

On 1 January 2023, the Group has adopted IFRS 17 Insurance Contracts, which replaced the existing standard, IFRS 4 Insurance Contracts.

IFRS 17 introduces pervasive changes to the measurement, presentation and disclosure of insurance contracts and related account balances. The standard is complex and has required significant judgement and interpretation in its application. To meet the requirements of the new standard, the Group has made significant changes to systems, processes and controls.

IFRS 17 has been applied fully retrospectively as at 1 January 2022 to each group of insurance contracts. As a result, comparative information has been restated within the financial statements. The net impact on the opening balance sheet equity at 1 January 2022 was a reduction of £96.1 million.

The transition to IFRS 17 is considered a key audit matter due to the pervasive accounting impact and the significant judgements made by management in its application. This has had a corresponding impact on audit effort. Key sources of estimation uncertainty and accounting judgements, as identified in note 2, include:

- Level of aggregation;
- Premium Allocation Approach ("**PAA**") eligibility;
- Estimates of future cash flows;
- Risk adjustment;
- Discount rates;
- Onerous contracts; and
- General insurance: Liability for incurred claims and amounts recoverable from reinsurance contracts held.

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

We performed the following audit procedures for the purposes of understanding and challenging key judgements and assumptions:

- Assessed management's accounting policy and methodology papers for compliance with the standard, involving relevant IFRS 17 specialists where required;
- Gained a detailed understanding of the relevant controls implemented for both the restated balances and business processes impacted by the transition to IFRS 17 in 2023;
- Substantively tested through a combination of test of details and/or substantive analytical procedures, the restated comparative figures under IFRS 17;
- Inspected contract terms and management information to assess the application of level of aggregation requirements to the insurance contracts issued and reinsurance contracts held by the Group;
- For those contracts not automatically eligible for PAA, including the Motability insurance contract, we worked with our actuarial specialists to challenge management's PAA eligibility testing and conclusions;
- Involved our actuarial specialists in performing procedures to challenge the Group's IFRS 17 calculation models, including those related to the estimate of the fulfilment cashflows, the risk adjustment and discounting;
- Engaged financial instrument specialists to challenge the determination of the illiquidity premia applied to short and long tail insurance liabilities;
- Gained an understanding of management's onerous contracts facts and circumstances assessment and performed procedures to test the input data used and the mathematical accuracy of the results reached; and
- Challenged the disclosures and presentation within the financial statement against the requirements of IFRS 17.

**Key observations**

We considered the IFRS 17 accounting policies and methodologies adopted to be reasonable and in compliance with the standard.

### 5.4 Past business reviews provisions

Refer to page 16 (Outgoing acting CEO review), page 29 (CFO review), page 118 (Audit Committee report) and pages 190 to 193 (Critical accounting judgements and key sources of estimation uncertainty – note 2.1).

**Key audit matter description**

Provisions for the Group's best estimate of anticipated customer redress payments and operational costs from past business reviews are material and have been the subject of significant audit effort, including the involvement of a regulatory specialist partner, and are therefore considered a key audit matter.

The past business review provisions at 31 December 2023 total £130.2 million (2022: £45.9 million).

The past business reviews cover motor total loss claims, which covers claims settled between 1 September 2017 and 17 August 2022, and the pricing of motor and home policies following the implementation of the FCA's Pricing Practices Review ("**PPR"**) reform from 1 January 2022 and have been subject to third party investigations.

The measurement of these provisions requires several assumptions with a significant degree of management judgement. Key assumptions include the expected volume of impacted customers and related redress costs. As a result, the estimates and judgements applied in setting these provisions are a source of key estimation uncertainty.

# Independent Auditor's Report to the shareholders of Direct Line Insurance Group plc continued

## 5. Key audit matters continued

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

We performed the following procedures:

- Gained an understanding of management's process for setting these provisions;
- Performed a sample test on the redress amounts by tracing to underlying case files, customer communications and bank statements where an amount had been paid;
- Performed an assessment of whether the methodology and approach to redress was consistent with third party investigation reports;
- Assessed the competence, capability and objectivity of the third party experts;
- Met with the FCA to understand the regulatory context of the investigations;
- Involved a regulatory specialist partner, who supported the audit team in providing challenge on assumptions and judgements in inspecting the third party investigation reports;
- Assessed each provision for contradictory evidence and management bias; and
- Challenged the disclosures and presentation of the provisions within the financial statement using relevant disclosure checklist tools.

**Key observations**

We concluded that the provisions are reasonable.

## 6. Our application of materiality

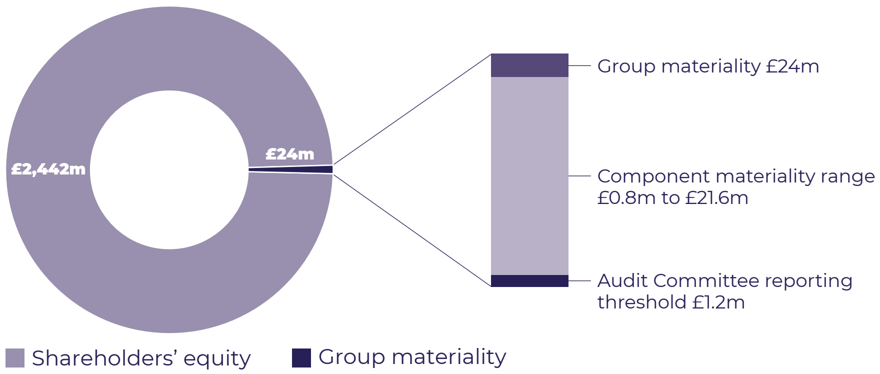
### 6.1 Materiality

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

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

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Materiality** | £24.0 million (2022: £24.0 million) | £21.6 million (2022: £21.6 million) |
| **Basis for determining materiality** | The materiality approximates 1.0% (2022: 1.0%) of shareholders' equity. | The materiality approximates 0.7% (2022: 1.0%) of shareholders' equity and is capped at 90% (2022: 90%) of Group materiality. |
| **Rationale for the benchmark applied** | We determined that the critical benchmark for the Group was shareholders' equity given the focus on distributable reserves and future dividend payment capacity.<br>We also considered this measure alongside insurance revenue, with our materiality equating to 0.7% (2022: 0.7%) of insurance revenue. | We determined that the critical benchmark for the Parent Company was shareholders' equity. This is because the Parent Company is not a trading entity but rather received dividend income from its subsidiaries.<br>When determining materiality for the Parent Company, we also considered the appropriateness of this materiality for the consolidation of this set of financial statements to the Group's results. |

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the component's proportion of the chosen benchmark. This is capped at the lower of 90% of Group materiality and the component materiality determined for a standalone audit. The main UK insurance trading entity, U K Insurance Limited, which makes up 100% of Group insurance revenue and 100% of Group insurance contract liabilities, is scoped to a component materiality of £21.6 million (2022: £21.6 million). Component materiality for other entities within the scope of our Group audit ranged from £0.8 million to £21.6 million (2022: £0.7 million to £21.6 million).



### 6.2 Performance materiality

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

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Performance materiality** | 65% (2022: 67.5%) of Group materiality | 65% (2022: 67.5%) of Parent Company materiality |
| **Basis and rationale for determining performance materiality** | In determining performance materiality, we considered the following factors:<br>– The impact of the economic and past business reviews on the Group; and<br>– Our risk assessment, including our assessment of the Group's overall control environment. | |

### 6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.2 million (2022: £1.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

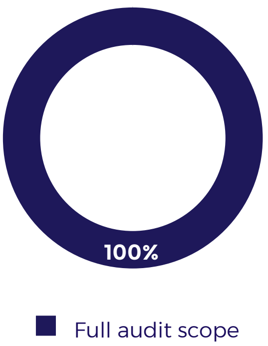
### 7.1 Identification and scoping of components

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

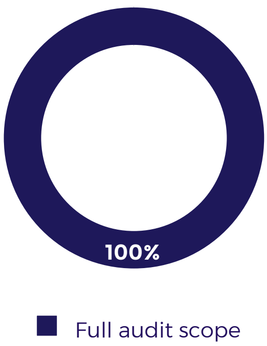
This resulted in three entities (Direct Line Insurance Group plc, U K Insurance Limited and DL Insurance Services Limited) being subject to a full scope audit and a further one (Churchill Insurance Company Limited) was subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations. All entities within scope of the Group audit are based in the UK.

These four entities represent the principal trading and service operations of the Group and account for 96% (2022: 97%) of the Group's shareholders' equity and 100% (2022: 100%) of the Group's insurance revenue and 100% of insurance contract liabilities (2022: 100%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

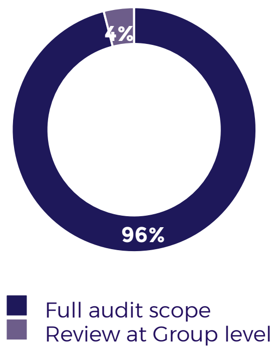
**Insurance Revenue**




**Insurance Contract Liabilities**




**Shareholders' equity**




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

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

## 7. An overview of the scope of our audit continued

### 7.1 Identification and scoping of components continued

### 7.2 Our consideration of the control environment

IT Controls

In planning our 2023 audit, we identified 19 (2022: 19) systems that were material to the Group's financial reporting processes. These systems handled data relating to premiums, claims, expenses and payroll and we intended to rely on the IT and business controls associated with these systems. Our IT specialists tested the IT controls associated with these systems, and the supporting infrastructures and wider general IT control environment. We were able to rely on the IT controls associated with 17 (2022: 17) systems, with one (2022: one) system in the process of establishing controls and one (2022: one) system having controls that did not operate for the whole period.

Business Process and Financial Reporting controls

In planning our 2023 audit, we identified 21 business processes (2022: 21) that were material to the Group's financial reporting process. These processes covered the Group's material transactions and account balances including the premiums, claims, reinsurance, expenses, payroll, investments and intangibles processes and part of the reserving process relating to reconciliation of data. Of these, we intended to rely on the business controls associated with 19 (2022: 19) of these processes. Further, we changed our control rotation strategy, and tested all relevant controls in significant business processes, except payroll, for operating effectiveness. Having completed our testing of the relevant controls of business controls associated with these processes, we concluded that we were able to rely on the business controls associated with 19 (2022: 12) processes as planned.

In response to deficiencies identified as part of the 2022 audit, we performed enhanced procedures in the current period on the business processes impacted. We tested the design, implementation and operating effectiveness over the remediated controls on which we planned to rely and which management implemented in response to the deficiencies raised.

### 7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including the Climate Executive Steering Group and Group sustainability framework. Management has performed a risk assessment for climate-related risks, further details are disclosed in the strategic report on pages 70 to 85. Based on the risk assessment, management has concluded that the impact of climate-related risks is not material to the financial statements in the short term, as disclosed in note 3 to the financial statements. We have performed a risk assessment of the financial impact of climate risks, with support from a climate change risk disclosure specialist, on the financial statements and concluded the risks of material misstatement due to climate risk factors are remote. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation.

We have read the climate-related financial disclosures (including climate risks) within the Planet section of the Annual Report, taking into consideration the TCFD recommended disclosures and UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, and consider the disclosures to be consistent with our understanding of the business and the financial statements.

## 8. Other information

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

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

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

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

We have nothing to report in this regard.

## 9. Responsibilities of Directors

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

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

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

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

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

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

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

### 11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was tabled at the audit committee on 1 November 2023;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, real estate, valuations, pensions, IT, fraud, regulatory and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

### 11.1 Identifying and assessing potential risks related to irregularities continued

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

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

#### 11.2 Audit response to risks identified

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

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

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

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

## Report on other legal and regulatory requirements

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

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

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

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

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

### 13. Corporate governance statement

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

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 159 and 160;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 93 and 94;
- the directors' statement on fair, balanced and understandable set out on page 115;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 115;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 194; and
- the section describing the work of the Audit Committee set out on page 117.

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

### 14.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

### 14.2 Directors' remuneration

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

We have nothing to report in respect of these matters.

## 15. Other matters which we are required to address

### 15.1 Auditor tenure

Following the recommendation of the audit committee of Royal Bank of Scotland Group Plc ("**RBSG**"), which at the time owned Direct Line Insurance Group plc, we were appointed by the Board of Directors of RBSG on 21 March 2000 to audit the financial statements for the year ending 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 24 years, covering the years ending 31 December 2000 to 31 December 2023. There is mandatory rotation of the audit of the financial statements for the year ending 31 December 2024, and therefore we will cease to be auditor of the Group.

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

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

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

**Andrew Holland, FCA**

Senior statutory auditor

For and on behalf of Deloitte LLP

Statutory auditor

London, United Kingdom

21 March 2024

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

| | Notes | 2023 £m | 2022 £m restated[1] |
|---|---|---|---|
| Insurance revenue | 5 | **3,601.7** | 3,229.1 |
| Insurance service expenses | 5 | **(3,806.3)** | (3,145.5) |
| Allocation of reinsurance premiums paid | 5 | **(470.2)** | (165.7) |
| Amounts recoverable from reinsurance contracts held | 5 | **423.4** | 96.4 |
| **Insurance service result** | 5 | **(251.4)** | 14.3 |
| Total interest income calculated using effective interest rate method | 6 | **171.8** | 109.3 |
| Other interest and similar income | 6 | **16.1** | 15.6 |
| Investment fees | 6 | **(9.3)** | (9.5) |
| **Investment income** | 6 | **178.6** | 115.4 |
| Total net fair value gains/(losses) on financial assets held at fair value through profit or loss: | 6 | **127.0** | (302.8) |
| Net fair value losses on investment property | 6 | **(1.9)** | (39.1) |
| Net credit impairment losses on financial investments | 6 | **(0.7)** | (0.6) |
| **Investment return** | 6 | **303.0** | (227.1) |
| Net finance (expenses)/income from insurance contracts issued | 6 | **(193.8)** | 102.4 |
| Net finance income/(expenses) from reinsurance contracts held | 6 | **28.0** | (101.5) |
| **Investment return and net insurance finance result** | 6 | **137.2** | (226.2) |
| Other operating income | | **21.8** | 8.3 |
| Other operating expenses | 7 | **(59.6)** | (77.8) |
| Other finance costs | 8 | **(14.5)** | (20.4) |
| Gain on disposal of business | 9 | **443.9** | — |
| **Profit/(loss) before tax** | | **277.4** | (301.8) |
| Tax (charge)/credit[2] | 10 | **(54.5)** | 69.9 |
| **Profit/(loss) for the year attributable to the owners of the Company** | | **222.9** | (231.9) |
| **Earnings/(loss) per share:** | | | |
| Basic (pence) | 13 | **15.9** | (19.1) |
| Diluted (pence) | 13 | **15.7** | (19.1) |

**Notes:**

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Tax on gain on disposal of business is included in this figure.

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

| | Notes | 2023 £m | 2022 £m restated[1] |
|---|---|---|---|
| **Profit/(loss) for the year attributable to the owners of the Company** | | **222.9** | (231.9) |
| **Other comprehensive income/(loss)** | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement gain/(loss) on defined benefit pension scheme | 23 | **0.1** | (9.8) |
| Fair value gain/(loss) on equity investments measured at FVOCI | 6 | **3.3** | (0.6) |
| Realised loss on equity investments measured at FVOCI | 6 | **(0.6)** | – |
| Tax relating to items that will not be reclassified | 11 | **–** | 2.5 |
| | | **2.8** | (7.9) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Cash flow hedges | | **(0.2)** | 0.3 |
| | | **(0.2)** | 0.3 |
| **Other comprehensive income/(loss) for the year net of tax** | | **2.6** | (7.6) |
| **Total comprehensive income/(loss) for the year attributable to the owners of the Company** | | **225.5** | (239.5) |

**Note:**

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

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2023

| | Notes | As at 31 December 2023 £m | 2022 £m restated[1] | As at 1 January 2022 £m restated[1] |
|---|---|---|---|---|
| **Assets** | | | | |
| Goodwill and other intangible assets | 15 | **818.6** | 822.2 | 822.5 |
| Property, plant and equipment | 16 | **91.6** | 83.7 | 113.8 |
| Right-of-use assets | 17 | **96.1** | 73.0 | 76.1 |
| Investment property | 18 | **277.1** | 278.5 | 317.0 |
| Insurance contract assets | 20 | **5.4** | 17.3 | – |
| Reinsurance contract assets | 20 | **1,346.0** | 1,074.9 | 1,181.7 |
| Deferred tax assets | 11 | **56.5** | 89.0 | 29.4 |
| Current tax assets | | **82.8** | 71.9 | 14.4 |
| Other receivables | | **35.2** | 34.5 | 28.4 |
| Prepayments, accrued income and other assets | 21 | **101.5** | 104.9 | 124.2 |
| Derivative financial instruments | 22 | **27.4** | 31.3 | 35.9 |
| Retirement benefit asset | 23 | **1.3** | 1.6 | 12.1 |
| Financial investments | 24 | **3,691.6** | 3,696.4 | 4,630.3 |
| Cash and cash equivalents | 25 | **1,772.2** | 1,003.6 | 955.7 |
| Assets held for sale | 26 | **13.9** | 40.9 | 41.2 |
| **Total assets** | | **8,417.2** | 7,423.7 | 8,382.7 |
| **Equity** | | | | |
| Shareholders' equity | | **2,058.2** | 1,845.3 | 2,450.6 |
| Tier 1 notes | 29 | **346.5** | 346.5 | 346.5 |
| **Total equity** | | **2,404.7** | 2,191.8 | 2,797.1 |
| **Liabilities** | | | | |
| Subordinated liabilities | 30 | **258.8** | 258.6 | 513.6 |
| Insurance contract liabilities | 20 | **5,238.8** | 4,625.8 | 4,725.6 |
| Reinsurance contract liabilities | 20 | **116.6** | 13.9 | 3.6 |
| Borrowings | 25 | **82.4** | 65.2 | 59.2 |
| Derivative financial instruments | 22 | **15.4** | 29.6 | 19.5 |
| Provisions | 32 | **30.8** | 10.2 | 48.1 |
| Trade and other payables | 33 | **163.6** | 147.0 | 131.8 |
| Lease liabilities | 36 | **106.1** | 81.6 | 84.2 |
| **Total liabilities** | | **6,012.5** | 5,231.9 | 5,585.6 |
| **Total equity and liabilities** | | **8,417.2** | 7,423.7 | 8,382.7 |

**Note:**

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

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2024.

They were signed on its behalf by:

**NEIL MANSER**

CHIEF FINANCIAL OFFICER

Registration No. 02280426

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

| | Share capital (note 27) £m | Employee trust shares £m | Capital reserves (note 28) £m | AFS revaluation reserve[2] £m | Equity investments revaluation reserve £m | Foreign exchange translation reserve £m | Retained earnings £m | Shareholders' equity £m | Tier 1 notes (note 29) £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2022** | 145.2 | (41.4) | 1,454.8 | 7.5 | 1.5 | (0.3) | 982.9 | 2,550.2 | 346.5 | 2,896.7 |
| First application of IFRS 17 | – | – | – | – | – | – | (96.1) | (96.1) | – | (96.1) |
| First application of IFRS 9 | – | – | – | (7.5) | – | – | 4.0 | (3.5) | – | (3.5) |
| **Balance at 1 January 2022 (restated[1])** | 145.2 | (41.4) | 1,454.8 | – | 1.5 | (0.3) | 890.8 | 2,450.6 | 346.5 | 2,797.1 |
| Loss for the year | – | – | – | – | – | – | (231.9) | (231.9) | – | (231.9) |
| Other comprehensive (loss)/income | – | – | – | – | (0.6) | 0.3 | (7.3) | (7.6) | – | (7.6) |
| **Total comprehensive (loss)/income for the year (restated[1])** | – | – | – | – | (0.6) | 0.3 | (239.2) | (239.5) | – | (239.5) |
| Dividends and appropriations paid (note 12) | – | – | – | – | – | – | (314.5) | (314.5) | – | (314.5) |
| Shares acquired by employee trusts | – | (11.0) | – | – | – | – | – | (11.0) | – | (11.0) |
| Shares cancelled following buyback (note 27) | (2.1) | – | 2.1 | – | – | – | (50.1) | (50.1) | – | (50.1) |
| Credit to equity for equity-settled share-based payments | – | – | – | – | – | – | 9.6 | 9.6 | – | 9.6 |
| Shares distributed by employee trusts | – | 13.4 | – | – | – | – | (13.4) | – | – | – |
| Tax on share-based payments | – | – | – | – | – | – | 0.2 | 0.2 | – | 0.2 |
| **Total transactions with equity holders** | (2.1) | 2.4 | 2.1 | – | – | – | (368.2) | (365.8) | – | (365.8) |
| **Balance at 31 December 2022 (restated[1])** | 143.1 | (39.0) | 1,456.9 | – | 0.9 | – | 283.4 | 1,845.3 | 346.5 | 2,191.8 |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **222.9** | **222.9** | **–** | **222.9** |
| Other comprehensive income/(loss) | **–** | **–** | **–** | **–** | **2.7** | **(0.2)** | **0.1** | **2.6** | **–** | **2.6** |
| **Total comprehensive income/(loss) for the year** | **–** | **–** | **–** | **–** | **2.7** | **(0.2)** | **223.0** | **225.5** | **–** | **225.5** |
| Dividends and appropriations paid (note 12) | **–** | **–** | **–** | **–** | **–** | **–** | **(16.6)** | **(16.6)** | **–** | **(16.6)** |
| Shares acquired by employee trusts | **–** | **(10.2)** | **–** | **–** | **–** | **–** | **–** | **(10.2)** | **–** | **(10.2)** |
| Credit to equity for equity-settled share-based payments | **–** | **–** | **–** | **–** | **–** | **–** | **13.9** | **13.9** | **–** | **13.9** |
| Shares distributed by employee trusts | **–** | **19.3** | **–** | **–** | **–** | **–** | **(19.3)** | **–** | **–** | **–** |
| Tax on share-based payments | **–** | **–** | **–** | **–** | **–** | **–** | **0.3** | **0.3** | **–** | **0.3** |
| **Total transactions with equity holders** | **–** | **9.1** | **–** | **–** | **–** | **–** | **(21.7)** | **(12.6)** | **–** | **(12.6)** |
| **Balance at 31 December 2023** | **143.1** | **(29.9)** | **1,456.9** | **–** | **3.6** | **(0.2)** | **484.7** | **2,058.2** | **346.5** | **2,404.7** |

**Notes:**

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. The available-for-sale ("AFS") revaluation reserve recorded fair value movements on financial assets categorised as AFS under IAS 39 'Financial Instruments: Recognition and Measurement' which has since been superseded by IFRS 9 (see notes 1.1b and 40).

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2023

| | Notes | 2023<br>£m | 2022<br>£m<br>restated[1] |
|---|---|---|---|
| Net cash generated from operating activities before investment of insurance assets | 34 | **100.5** | 32.1 |
| Cash generated from investment of insurance assets | 34 | **304.4** | 768.1 |
| **Net cash generated from operating activities** | | **404.9** | 800.2 |
| **Cash flows from/(used) in investing activities** | | | |
| Investment in other intangible assets | 15 | **(124.1)** | (108.4) |
| Purchases of property, plant and equipment | 16 | **(18.9)** | (11.7) |
| Proceeds on disposals of assets held for sale | | **21.9** | 19.3 |
| Proceeds from disposal of business | 9 | **520.0** | — |
| Net cash outflow from acquisition of businesses | 38 | **(0.6)** | — |
| **Net cash generated from/(used in) investing activities** | | **398.3** | (100.8) |
| **Cash flows used in financing activities** | | | |
| Dividends and appropriations paid | 12 | **(16.6)** | (314.5) |
| Repayment of subordinated liabilities | 34 | **—** | (250.0) |
| Other finance costs (including lease interest) | | **(14.2)** | (23.0) |
| Principal element of lease payments | | **(10.8)** | (8.9) |
| Purchase of employee trust shares | | **(10.2)** | (11.0) |
| Share buyback | 27 | **—** | (50.1) |
| **Net cash used in financing activities** | | **(51.8)** | (657.5) |
| **Net increase in cash and cash equivalents** | | **751.4** | 41.9 |
| Cash and cash equivalents at the beginning of the year | 25 | **938.4** | 896.5 |
| **Cash and cash equivalents at the end of the period** | 25 | **1,689.8** | 938.4 |

**Note:**

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

The attached notes on pages 179 to 252 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## Corporate information

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

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

## 1. Accounting policies

### Basis of preparation

As required by the Companies Act 2006, the Group's consolidated financial statements are prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("**IFRSs**") as issued by the International Accounting Standards Board ("**IASB**"). The Group has elected to prepare its parent company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'.

The consolidated financial statements are prepared on the historical cost basis except for (i) insurance and reinsurance contract assets and liabilities which are measured at their fulfilment value in accordance with IFRS 17; (ii) debt and equity investments held at either fair value through profit or loss ("**FVTPL**") or fair value through other comprehensive income ("**FVOCI**"); and (iii) financial assets; investment property and derivative financial instruments, which are measured at fair value (fair value is defined in note 37).

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The policies set out below have been applied consistently throughout the years ended 31 December 2023 and 31 December 2022 to items considered material to the consolidated financial statements.

The accounting policies are consistent with those set out in the Group's 2022 annual financial statements, with the exception of new accounting standards which were effective for periods beginning on or after 1 January 2023. The nature and effect of these changes are disclosed in note 2 and 40.

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

### Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The Chief Financial Officer Review describes the Group's capital management strategy, including the capital actions taken in the last 12 months to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to rebuild balance sheet resilience. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3. This covers insurance, market, credit, liquidity and operational risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

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

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

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

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

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

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

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

## 1. Accounting policies continued

### Going concern continued

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

### 1.1 Adoption of new and revised standards

The Group has adopted the following new amendments to IFRSs and International Accounting Standards ("**IASs**") that became mandatorily effective for the Group for the first time during 2023 which are material to the Group.

The Group has adopted the requirements of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' from 1 January 2023 on a fully retrospective basis in these financial statements for the first time. The impact of adoption of the standards and key changes are discussed below:

- transition approaches used and their impact;
- new accounting policies related to IFRS 17 and IFRS 9; and
- significant accounting judgements and sources of estimation uncertainty.

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

The Group has adopted IFRS 17 from 1 January 2023, and chose to restate 2022 comparatives. IFRS 17 does not impact the fundamental economics of the Group's business, financial strength, claims paying ability, or dividend capacity. Thus, there is no change to the Group's business operations. IFRS 17 results in a significant change in the accounting, presentation, and disclosures of the Group's financial results. The key changes are summarised below.

The insurance service result has reflected discounting for claims in the period and reclassification of certain expenses from attributable to non-attributable expenses, in line with the requirements of the standard. This has resulted in non-attributable expenses being recognised outside of the insurance service result.

Under IFRS 17, the Group has taken the option to expense insurance acquisition cash flows when they are incurred. Under IFRS 4, such acquisition costs were recognised and presented separately as 'deferred acquisition costs'.

The Group uses the Premium Allocation Approach ("PAA") to simplify the measurement of groups of insurance contracts and reinsurance contracts provided that relevant PAA eligibility criteria are met.

The carrying amount of a group of insurance contracts issued is the sum of liability for remaining coverage ("**LFRC**") and liability for incurred claims ("**LIC**"). In measuring LFRC, the PAA aligns closely with the Group's previous accounting approach under IFRS 4. However, IFRS 17 incorporates several key changes compared to IFRS 4 in the measurement of the LIC. Previously, only PPO reserves were discounted to present value, reflecting the time value of money. Since transition to IFRS 17 all claims reserves are discounted to their present value. Additionally, an explicit risk adjustment ("**RA**") is included in the calculation to account for non-financial risks associated with claims. The Group has chosen to take the full effect of the time value of money and changes in the time value of money and financial risk to the consolidated statement of profit or loss.

The key changes noted below are those that are significant on transition to IFRS 17.

Disclosures are more detailed and granular:

- The presentation of the primary statements has changed including the introduction of new required line items. New requirements include insurance revenue, insurance service expenses, allocation of reinsurance premium paid and amount recoverable from reinsurance contracts held. The presentation provides analysis of the various components related to insurance activities. As a result, the consolidated statement of profit or loss no longer includes the presentation of gross and net written premium.
- New accounting policies as a result of transition to IFRS 17 and related accounting treatments are summarised in note 1.
- Significant judgements, and changes in those judgements, and critical estimates when applying the standard are summarised in note 2.1.
- Other disaggregated qualitative and quantitative information as required by IFRS 17 (for example. reconciliation of insurance contract liabilities for movement in liability for remaining coverage and liability for incurred claims) is provided in the notes to the financial statements (see note 20).

The fully retrospective approach was applied to the insurance contracts and reinsurance contracts in force at the transition date 1 January 2022. The application of the transition approach involved:

- comprehensive review, identification, and measurement of groups of insurance contracts and reinsurance contracts. The assessment was conducted as if the requirements of IFRS 17 were always in effect. As a result, any balances that would not have existed under the constant application of IFRS 17 have been removed. The approach ensures compliance with the retrospective application of IFRS 17, bringing the Group's financial reporting in line with the principles of the standard; and
- PAA eligibility assessment was carried out for insurance and reinsurance contracts in the 2021 and prior unexpired groups, specifically those with coverage periods exceeding 12 months. The assessment confirmed that these contracts satisfied the criteria for PAA eligibility.

On the transition date, 1 January 2022, the Group has determined the quantitative impact in the following key areas.

Equity: net shareholders equity decreased by £96.1 million, primarily as a result of the policy choice to expense acquisition costs. This was partially offset by the inclusion of discounting in the LIC.

Net insurance contract liabilities: decreased primarily due to the introduction of discounting, for non-PPO claims reserves, partially offset by the reclassification of balances, such as IPT payable, from trade and other payables into net insurance contract liabilities.

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

The reconciliation of opening to closing equity under IFRS 17 and the resulting impact on key financial statement line items is disclosed in note 40.1.

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

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

The adoption of IFRS 9 has resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets, which requires a calculation for an expected credit loss ("**ECL**") for financial assets held at amortised cost.

On the transition date, 1 January 2022, the net impact recognised in equity was a decrease of £3.5 million, driven primarily by the recognition of the ECL under IFRS 9 for financial instruments carried at amortised cost, with further details included in notes 24, 40.1, 40.2 and 40.3.

#### Classification and measurement of financial instruments

The Group's debt instruments of £4,084.6 million that were classified as available-for-sale ("**AFS**") under IAS 39 'Financial Instruments: Recognition and Measurement' as at 1 January 2022 (the opening date of the comparative period) satisfy the conditions for classification as 'held to collect and sell' under IFRS 9 to be measured at FVOCI. However, the Group has applied the IFRS 9 option to designate debt instruments, backing its insurance contracts as FVTPL, to reduce the accounting mismatch caused by the change in the discount rates on the value of insurance contracts that are reflected in the consolidated statement of profit or loss. The AFS reserve of £7.5 million was transferred to retained earnings on 1 January 2022.

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

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

The following table shows the differences in the carrying amounts of financial instruments from their previous measurement category under IAS 39 to the measurement categories on transition to IFRS 9 on 1 January 2022.

| | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| | Measurement category | Carrying amount £m | Measurement category | Carrying amount £m |
| **Financial assets** | | | | |
| Debt securities | Available-for-sale | 4,084.6 | Fair value through profit or loss | 4,084.6 |
| Debt securities | Held-to-maturity | 91.2 | Amortised cost | 90.0 |
| Loans and receivables | Amortised cost | 451.6 | Amortised cost | 449.2 |
| Equity investments | Available-for-sale | 6.2 | Fair value through other comprehensive income | 6.2 |
| Equity investments | Fair value through profit or loss | 0.8 | Fair value through profit or loss | 0.8 |
| Derivative financial instruments | Fair value through profit or loss | 35.9 | Fair value through profit or loss | 35.9 |
| Cash and cash equivalents | Amortised cost | 955.7 | Amortised cost | 955.7 |
| **Financial liabilities** | | | | |
| Borrowings | Amortised cost | 59.2 | Amortised cost | 59.2 |
| Derivative financial instruments | Fair value through profit or loss | 19.5 | Fair value through profit or loss | 19.5 |
| Trade and other payables | Amortised cost | 131.8 | Amortised cost | 131.8 |
| Subordinated liabilities | Amortised cost | 513.6 | Amortised cost | 513.6 |

## 1. Accounting policies continued

### 1.1 Adoption of new and revised standards continued

#### Expected credit losses

The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under IAS 39. The Group has established a default probability model for its financial investments and debt securities held at amortised cost. Impairment for the remaining assets is measured using the simplified approach based on a probability matrix that incorporates all available information relevant to the assessment of credit risk, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

The adoption of IFRS 9 has resulted in an ECL, inclusive of the effect of tax, of £3.5 million at 1 January 2022.

### 1.1 (c) Estimated impact of the transition to IFRS 17 and IFRS 9 disclosed in the 2022 Annual Report and Accounts (the "Report")

Following the publication of the 2022 Report, and as disclosed in the 2023 Half Year Report, the Group has reassessed its reserving methodology for events not in data ("**ENIDs**"). To ensure consistency in the recognition of ENIDs between Solvency II and IFRS17, the Group has taken the decision to align the IFRS17 ENIDs methodology with that used in Solvency II. This change in methodology has further reduced the Group's total equity of £2,896.7 million on the opening consolidated statement of financial position as at 1 January 2022 by £39.4 million to £2,797.1 million from the estimated financial impact of adoption of IFRS 17 and IFRS 9 of £60.2 million disclosed in the 2022 Annual report.

### 1.1 (d) Other accounting standards and amendments adopted during 2023

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

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

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

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

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

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

### 1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities that are controlled by the Group at 31 December 2023 and 31 December 2022. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing whether the Group controls another entity, the existence and effect of the potential voting rights that are currently exercisable or convertible are considered.

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

The Group accounts for the disposal of subsidiary undertakings or a disposal group when it ceases to exert control.

A gain or loss is measured as the difference between the fair value of consideration received or receivable and the value of the assets and liabilities de-recognised, which relate to businesses disposed of. The gain or loss is recognised on the effective date of the completion of the disposal.

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

### 1.3 Foreign currencies

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

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

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

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

## 1.4 Contract classification

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

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

## 1.5 Insurance contracts

### Insurance and reinsurance contracts classification

Contract classification, as disclosed in policy note 1.4 above, remains unchanged on adoption of IFRS 17. The Group issues short-term motor, home, rescue, pet, travel and commercial insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders.

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

### Insurance contracts accounting treatment

#### (i) Separating components from insurance and reinsurance contracts

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

#### (ii) Level of aggregation

Insurance contracts are aggregated into groups for management purposes. The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories:

i. onerous contracts, if any;
ii. contracts with no significant risk of becoming onerous; and
iii. the remainder group of contracts in the portfolio.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. This occurs if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium. As all inwards contracts are measured under the PAA model, due to the short-term nature of the contracts, the Group takes the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The grouping of insurance contracts is determined at initial recognition and is not subsequently reassessed.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held based on the criteria of similar risks which are managed together. The reinsurance contract held portfolios are further divided within a calendar year into three groups that comprise:

i. contracts for which there is a net gain at initial recognition, if any;
ii. contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and
iii. remaining contracts in the portfolio.

#### (iii) Recognition

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

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

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

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

#### (iv) Contract boundary

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

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

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and therefore may change over time.

The contract boundary for a reinsurance contract is dependent on the terms and conditions of the reinsurance contract and therefore may not necessarily be the same as for the underlying insurance contracts. For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive insurance contract services from the reinsurer.

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

## 1. Accounting policies continued

### 1.5 Insurance contracts continued

#### (v) Measurement – Premium Allocation Approach

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

- the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- for groups of insurance and reinsurance contracts longer than one year, the Group has modelled possible future scenarios to test the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced by applying the General Measurement Model. Where contracts and groups of contracts are deemed to be immaterial additional PAA testing is not performed and accordingly contracts are measured under the PAA measurement model.

Insurance contracts – initial measurement

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group applies discounting and includes an explicit risk adjustment for non-financial risk.

The Group does not adjust the liability for remaining coverage for insurance contracts issued for the effect of the time value of money, because insurance premiums are due within one year of the coverage period.

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

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

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

Reinsurance contracts held – initial measurement

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

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

Insurance contracts – subsequent measurement

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

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

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

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance contract held. The Group adjusts the asset for incurred recoveries (on underlying incurred claims) for the effect of changes in the default risk of the reinsurer with the corresponding change being reflected in the insurance service result (amounts recovered from reinsurance contracts held). The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

Insurance acquisition cash flows for insurance contracts issued

The Group has taken the option to expense insurance acquisition cash flows as they are incurred. This includes for a small number of contracts where the coverage period exceeds a period of twelve months (see above) and there are no material amounts of acquisition costs relating to these contracts. This policy differs to the Group's previous policy of deferring acquisition costs over a twelve month period.

Insurance contracts – modification and derecognition

The Group derecognises insurance contracts when:

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

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

#### (vi) Presentation

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

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

### Insurance revenue

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

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

### Insurance service expenses

Insurance service expenses include the following:

- incurred claims; and
- other incurred directly attributable expenses, such as marketing and acquisition costs.

Other expenses not included above are included in other operating expenses in the consolidated statement of profit or loss.

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

### Insurance finance income and expense

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

- the effect of the time value of money and changes in the time value of money. This mainly comprises interest accreted on the LIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates (i.e discount rates) and the inflation assumptions for PPOs (which are predominantly inflated with respect to the ASHE 6115 index).

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

### Net income or expense from reinsurance contracts held

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

### Presentation of reinsurance contract with 'funds withheld' arrangement

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

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

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

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

## 1.6 Revenue recognition - non-insurance

### Investment return

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

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

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

## 1. Accounting policies continued

### 1.6 Revenue recognition - non-insurance continued

#### Other income

**Revenue from vehicle recovery and repair services (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')**
The Group's income also comprises vehicle repair services provided to other third-party customers. Income in respect of repairs to vehicles is recognised upon completion of the repair obligations. The price is determined using market rates for the services and materials used after discounts have been deducted where applicable.

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

### 1.7 Restructuring and one-off costs

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

### 1.8 Goodwill and other intangible assets

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

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

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

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

### 1.9 Property, plant and equipment

Items of property, plant and equipment (except investment property – see note 1.12) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

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

| | |
|---|---|
| Freehold and leasehold buildings | 50 years or the period of the lease if shorter |
| Other equipment, including computer equipment, vehicles and property adaptation costs | 2 to 15 years |

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

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

#### Where the Group is a lessee

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

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

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

#### Where the Group is a lessor

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

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

### 1.11 Impairment of intangible assets, goodwill and property, plant and equipment

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

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

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

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

### 1.12 Investment property

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

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

### 1.13 Financial instruments

#### Financial assets and liabilities

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

On initial recognition, financial assets are measured at fair value net of transaction costs. Subsequently they are measured at amortised cost, FVOCI or FVTPL, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

#### Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income is accounted for using the effective interest method. Such assets held by the Group include some of the Group's debt security portfolio, loans and receivables, trade and other receivables, and cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for derivative financial liabilities, which are held at fair value.

#### Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the statement of financial position at their fair value, inclusive of transaction costs.

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

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

#### Financial instruments measured at fair value through profit or loss

Financial assets are classified as FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. The Group has elected to account for its debt securities, backing its insurance contracts as FVTPL to reduce the accounting mismatch caused by fluctuations in values of underlying insurance contracts due to changes in discount rates.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each statement of financial position date.

Financial assets measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the statement of profit or loss within the investment return in the period in which they occur.

Financial liabilities are measured at FVTPL where they are trading liabilities such as derivative financial instruments. Financial liabilities measured at FVTPL are recognised in the statement of financial position at their fair value. Fair value gains and losses are recognised in the statement of profit or loss in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques.

## 1. Accounting policies continued

### 1.13 Financial instruments continued

#### Impairment of financial assets

The ECL model is used to calculate impairment to be recognised for all financial assets measured at amortised cost and FVOCI. The general approach, which utilises the three-stage model, is used for financial investment and debt securities, whilst impairment for the remaining assets is measured using the simplified approach.

The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

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

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

Stage 1 - no significant increase in credit risk since inception;

Stage 2 - significant increase in credit risk since inception;

Stage 3 - asset is impaired.

For assets in stage 1, the allowance is calculated as the expected credit losses from events within 12 months after the reporting date. For assets in stage 2 and 3, the allowance is calculated as the expected credit loss from events in the remaining lifetime of each asset.

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

Note 3.3.3 explains how the Group assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

#### Derivatives and hedging

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

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

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

#### Derecognition of financial assets

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

### 1.14 Cash and cash equivalents and borrowings

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

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

### 1.15 Assets and liabilities held for sale

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

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

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position and are not depreciated or amortised.

### 1.16 Financial liabilities

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

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

### 1.17 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at fair value net of transaction costs incurred. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

### 1.18 Provisions

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

When the Group has an onerous contract outside of the scope of IFRS 17, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

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

### 1.19 Short-term employee benefits

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

### 1.20 Pensions and other post-retirement benefits

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

Contributions to the Group's defined contribution pension scheme are recognised in the statement of profit or loss when payable.

The Group's defined benefit pension scheme, as described in note 23, was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method, and discounted at a rate that reflects the current rate of return on a high-quality corporate bond of equivalent term and currency to the scheme liabilities.

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

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

### 1.21 Taxation

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

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

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

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

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

Deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is probable that they will not be recovered.

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

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

### 1.22 Share-based payment

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

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

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

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

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

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

### 1.23 Capital instruments

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

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

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

### 1.24 Dividends

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

## 1. Accounting policies continued

### 1.25 Accounting developments

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

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

**Other accounting developments**

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

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

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

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

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

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

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

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

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Group's principal accounting policies are set out on pages 179 to 190. Company law and IFRSs require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable.

The critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies have been updated following adoption of IFRS 17 and IFRS 9, with the exception of fair value of investment properties, which remains a source of estimation uncertainty and is not affected by the transition to IFRS 17 and IFRS 9.

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

### 2.1 IFRS 17: Insurance and reinsurance contracts

**Level of aggregation**

Accounting judgement

The Group defines a portfolio as insurance contracts subject to similar risks and managed together. Contracts within the same product line are expected to be in the same portfolio as they have similar risks and are managed together. The assessment of which risks are similar and how contracts are managed requires the exercise of judgement. The general principles for defining the portfolio of insurance contracts for level of aggregation are equally applicable to reinsurance contracts held.

The Group manages insurance contracts issued by product. Contracts within each product are grouped together into different sub-groups for IFRS 17 reporting and disclosure purposes based on the criteria of similar risks which are managed together, the nature of product and profitability. Accordingly, insurance contacts are aggregated into groups for measurement purposes. All inwards contracts are measured under the PAA model and take the standard's default assumption that no groups are onerous unless facts and circumstances indicate otherwise. The Group aggregates portfolios of reinsurance contracts held issued by product which is consistent with how the reinsurance contract held portfolio is assessed and managed together operationally at product level.

### PAA eligibility
Accounting judgement

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

### Estimates of future cash flows
Source of estimation uncertainty

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, ensuring the estimates of any relevant market variables are consistent with observable market prices. However, these cash flows are inherently uncertain in size, timing and are based on probability-weighted average expectations. The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4.

### Risk adjustment
Accounting judgement

A risk adjustment for non-financial risk is determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. It is determined at Group level and allocated to groups of contracts based on the size of their reserves. More recent accident periods tend to be less developed with generally larger reserves than older contract periods, so that a higher proportion of the overall risk adjustment is allocated to these more uncertain groups of contracts. The risk adjustment for non-financial risk is determined using a confidence level technique. The risk adjustment is applied to the liability for incurred claims but not to the liability for remaining coverage.

The Group estimates the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level is the 75th percentile for the liability for incurred claims. The risk adjustment is derived using the reserve risk distribution calculated in the internal economic capital model and consequently, is subject to model and parameter uncertainty. A sensitivity which demonstrates the impact of the confidence level being at the 80th percentile on profit before tax is included in the Chief Financial Officer Review in the Reserving section. Group diversification benefit is not considered at the individual insurance undertaking entity level but is considered in determining the confidence level at a consolidated level for disclosure purposes.

### Discount rates
Accounting judgement

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

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

Yield curves used to discount PPO and Non-PPO cash flows

| Spot rate | 1 year | 3 year | 15 year |
|---|---|---|---|
| PPOs | 6.1 % | 5.1 % | 4.8 % |
| Non-PPOs | 4.9 % | 3.9 % | 3.6 % |

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

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

### 2.1 IFRS 17: Insurance and reinsurance contracts continued

**Onerous contracts**

Source of estimation uncertainty

In utilising the PAA measurement model approach, the Group assumes that no material contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. If at any time during the coverage period the facts and circumstances indicate that a group of insurance contracts is onerous, the Group establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group as determined above. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero. Where the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, and the Group has a corresponding reinsurance contract held, the Group establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

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

Accounting judgement

We seek to adopt a prudent approach to assessing liabilities. The Liability for Incurred Claims ("**LIC**") reserves are the combination of best estimate of liabilities ("**BEL**") and a risk adjustment, which is set around the 75th percentile and provides a prudence margin on top of the BEL. The BEL is set on a discounted basis and includes an allowance for events not in data ("**ENIDs**"), set by reference to various actuarial scenario assessments. ENIDs also consider other short and long-term risks not reflected in the actuarial inputs, as well as the actuarial function's view on the uncertainties in relation to the BEL.

Source of estimation uncertainty

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

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

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

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

The Group reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again in 2024 and the Group has booked a probability weighted allowance for a discount rate change within its best estimate liabilities. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 to 2023.The impact of a potential change in the Ogden discount rate is shown in note 3.3.1.

If the claimant prefers, large bodily injury claims can be settled using a Periodic Payment Order ("**PPO**"). This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity.

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

The table in note 20.6 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2023 and 31 December 2022 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3.3.1.

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, the consumer prices inflation was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific scenarios for excess inflation have been considered in the reserving process. The Group has observed a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty and the Group has booked an additional provision to protect against the risk of less recoveries than estimated within the actuarial best estimate. There is also uncertainty regarding the remediation cost for Motor total loss claims on past business and following a detailed review, the

Group has strengthened its provision for this risk at the year end.

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

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

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

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

## 2.2 IFRS 9: Financial instruments

### Classification of financial instruments

Accounting judgement

The Group exercises judgement in assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales and has concluded on the classification category of each portfolio of financial instrument in accordance with IFRS 9.

## 2.3 Fair value of investment properties

### Sources of estimation uncertainty

The Group holds a portfolio of investment properties, with a fair value at 31 December 2023 of £277.1 million (2022: £278.5 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investment properties are classified in the level 3 category of the fair value hierarchy (see note 37).

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Group's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations (see note 18). There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

## 2.4 Impairment provisions – financial assets

### Accounting judgement

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

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

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

Refer to analysis in note 3.3.3 and note 24 to the financial statements for further details on the Group's ECL methodology applied in the period.

Other than in relation to the implementation of IFRS 17 and IFRS 9, there have been no significant changes in the basis upon which judgement and estimates have been determined, compared to that applied as at 31 December 2022.

## 3. Risk management

### 3.1 Enterprise Risk Management Strategy and Framework

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

### 3.2 Risk and capital management modelling

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

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

### 3.3 Principal risks from insurance activities and use of financial instruments

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

The global geopolitical situation, including the ongoing war between Russia and Ukraine affected Europe's energy supply with inflation rate highs at the start of 2023, with rates reducing somewhat over the year. Interest rates reached their peak in Q3 2023. The global economic environment including the UK remains uncertain, driven by slow growth prospects with GDP growth remaining flat as increases in borrowing costs weigh on investment and consumption. The risk of a recession in the UK is still present and a persistent cost of living crisis would be heightened by further interest rate increases to ensure that the Government's 2% inflation target is met by the second quarter of 2025, has not been ruled out by the Bank of England, which would be expected to adversely impact both customers and businesses.

The Group's Investment and Treasury function continues to assess the impact of these adverse economic conditions on its investment portfolio holdings as part of its ongoing investment management oversight.

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

#### Claims inflation

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

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

#### Climate change

The Group recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Details on our risk management approach to climate change are included on pages 70 to 85, within the Task Force on Climate-related Financial Disclosures ("**TCFD**") report.

### 3.3.1 Insurance risk

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

The Group is mainly exposed to the following insurance risks:

#### Reserve risk

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

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

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

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

- regular reviews of the claims and premiums, in line with IFRS 17 requirements for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- use of reinsurance programmes, through Motor, liability, property catastrophe and travel, which are renewable annually;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 20.6.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Under IFRS 17 all claims reserves are held on a discounted basis and so are sensitive to changes in the discount rate, however this sensitivity tends to be more significant to the Group's PPO reserves given their longer duration.

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

| | Increase/(decrease) in profit before tax and equity gross of reinsurance[1,2] | | Increase/(decrease) in profit before tax and equity net of reinsurance[1,2] | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| **At 31 December** | **£m** | £m | **£m** | £m |
| **Discount curve - PPOs[3]** | | | | |
| Impact of an increase in the discount rate used in the calculation of present values of 100 basis points | **95.0** | 87.1 | **39.0** | 35.2 |
| Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points | **(127.8)** | (113.7) | **(52.1)** | (45.4) |
| **Discount curve - other claims[4]** | | | | |
| Impact of an increase in the discount rate used in the calculation of present values of 100 basis points | **55.9** | 39.7 | **37.2** | 27.1 |
| Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points | **(58.6)** | (41.4) | **(38.9)** | (28.2) |
| **Ogden discount rate[5]** | | | | |
| Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2022: 0.75% compared to minus 0.25%) | **105.1** | 85.7 | **48.1** | 24.8 |
| Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2022: minus 1.25% compared to minus 0.25%) | **(220.6)** | (180.4) | **(97.0)** | (48.2) |
| **Claims inflation** | | | | |
| Impact of a decrease in claims inflation by 200 basis points for two consecutive years | **112.8** | 96.9 | **71.7** | 64.5 |
| Impact of an increase in claims inflation by 200 basis points for two consecutive years | **(114.6)** | (98.3) | **(72.8)** | (65.4) |
| **Risk adjustment[6]** | | | | |
| Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile | **73.1** | 74.1 | **36.6** | 33.7 |
| Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile | **(84.5)** | (87.5) | **(42.9)** | (38.6) |

## 3. Risk management continued

### 3.3.1 Insurance risk continued

Notes:
1. These sensitivities exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the statement of financial position date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.7% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. The sensitivities relating to an increase or decrease in the yield curve used to discount all reserves excluding PPOs illustrate a movement in the time value of money from the assumed level at the statement of financial position dates. The sensitivity has been calculated on the direct impact of the change in the discount curve with all other factors remaining unchanged.
5. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.
6. The risk adjustment sensitivities are with respect to the discounted net risk adjustment at the statement of financial position dates.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2023. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

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

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

#### Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. In Q3, under our new partnership, the Group began underwriting vehicle insurance for over 700 thousand members of the Motability scheme which is designed to enable disabled people, their families and their carers to lease a new car, scooter or powered wheelchair, using their disability benefit. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

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

The key risks relating to climate change today are UK floods and major UK windstorms. The Group recognises that climate change may impact its business over the longer term. In particular, there is a risk that climate change affects the frequency and severity of extreme weather events (physical risk), which will change the Group's view of underwriting risk, reinsurance and pricing. The Group will continue to develop its risk management systems and monitoring tools over 2024, and accelerate the pre-emptive management actions of repricing and reinsurance as well as the strategic management actions relating to flood resilience and underwriting footprint following the second round of the Climate Biennial Exploratory Scenario ("**CBES**") analysis in early 2022. Low-frequency, high-severity weather losses are mitigated to a significant degree by the catastrophe reinsurance programme, the ceding of Home high flood risks to Flood Re, and the commercial direct underwriting strategy which reduces high flood risk exposure. The Group expects these specific risks to materialise in the medium to longer term (see page 72 for definition). Furthermore, there is a risk that the Group's insurance products will not meet its customers' needs as a result of changes in market dynamics and customer behaviour in relation to climate change, for example a rapid shift towards electric vehicle usage. The Group anticipates that its continued strategic and operational response to the transition to a lower-carbon economy will support mitigation of these risks and the associated impacts in the long term.

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

- geographic concentration risk – the Group's business is almost wholly written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/storm surge and flood losses. The programme which ran from 1 July 2022 to 30 June 2023 was renewed on the 1 July for six months to 31 December 2023. It had a retention of £150 million per weather event and an upper limit of £1,400 million. Subsequently, it will be renewed annually on 1 January and will cover a 12 month period. The 2024 programme has a retention of £100 million per event with an upper limit, including retention, of £1,000 million. The size of the programme has reduced as a result of the sale of the Group's brokered commercial business, and subsequent quota share arrangements, announced in September 2023; and
- product concentration risk – the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers.

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

### Distribution risk

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

### Pricing risk

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

### Reinsurance risk

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

Other risks include:

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

The Group uses reinsurance to:

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

## 3.3.2 Market risk

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

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

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

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

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

In light of the global economic uncertainty, during the first three quarters of 2023, maturities from the in-house short and intermediate sterling credit portfolios had not been reinvested up to October, significantly increasing cash reserves and liquidity.

## 3. Risk management continued

### 3.3.2 Market risk continued

During Q2 2023 the Group undertook a Strategic Asset Allocation exercise in relation its investment portfolio. The proposals from the strategic allocation exercise were reviewed by the Investment Committee and its recommendations are in the process of being approved by the Investment Committee on a phased basis. Following their approval, the first changes to the investment portfolio began to be implemented in Q4 2023. This involved increasing proportions invested in UK gilts and US credit holdings. Further changes are anticipated to be brought to the Investment Committee for approval during 2024. The net proceeds from the sale of the brokered commercial business have provided additional funds available for investment.

The investment management objectives are to:

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

The Investment Committee has agreed long-term targets for the investment portfolio in relation to supporting the Group's objectives on climate change. These are: ensuring the Group's entire investment portfolio is net zero emissions by 2050 in line with the aims of the Race to Zero campaign; and an interim target of a 50% reduction in weighted average greenhouse gas emissions intensity by 2030 within the Group's corporate bonds portfolio, the largest part of its investment portfolio, compared to a 2020 baseline. See pages 79 to 80 for more information on investment portfolio targets, exclusions and preferences and pages 61 to 62 for the Group's approved Science-Based Targets.

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

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

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

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

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

| At 31 December 2023 | Corporate £m | Local government £m | Sovereign £m | Supranational £m | **Debt securities total £m** |
|---|---|---|---|---|---|
| Australia | 119.8 | — | — | — | **119.8** |
| Austria | 3.1 | — | — | — | **3.1** |
| Belgium | 39.3 | — | — | — | **39.3** |
| Canada | 48.2 | — | — | — | **48.2** |
| China | 0.6 | — | — | — | **0.6** |
| Denmark | 18.2 | — | — | — | **18.2** |
| Finland | 8.9 | — | — | — | **8.9** |
| France | 229.3 | — | — | — | **229.3** |
| Germany | 140.8 | — | — | — | **140.8** |
| Hong Kong | 0.8 | — | — | — | **0.8** |
| Italy | 17.4 | — | — | — | **17.4** |
| Japan | 20.8 | — | — | — | **20.8** |
| Luxembourg | 4.8 | — | — | — | **4.8** |
| Mexico | 7.1 | — | — | — | **7.1** |
| Netherlands | 105.4 | — | — | — | **105.4** |
| Norway | 0.5 | 0.9 | — | — | **1.4** |
| Portugal | 6.5 | — | — | — | **6.5** |
| South Africa | 6.4 | — | — | — | **6.4** |
| Spain | 66.0 | — | — | — | **66.0** |
| Sweden | 23.4 | — | — | — | **23.4** |
| Switzerland | 55.0 | — | — | — | **55.0** |
| United Kingdom | 745.4 | — | 657.1 | — | **1,402.5** |
| USA | 933.7 | — | 23.7 | — | **957.4** |
| Supranational | — | — | — | 25.6 | **25.6** |
| **Total** | **2,601.4** | **0.9** | **680.8** | **25.6** | **3,308.7** |

## 3. Risk management continued

### 3.3.2 Market risk continued

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

| At 31 December 2022 (restated[1]) | Corporate £m | Local government £m | Sovereign £m | Supranational £m | Debt securities total £m |
|---|---|---|---|---|---|
| Australia | 116.0 | — | — | — | 116.0 |
| Austria | 4.3 | — | — | — | 4.3 |
| Belgium | 31.6 | — | — | — | 31.6 |
| Canada | 59.8 | — | — | — | 59.8 |
| Cayman Islands | 3.7 | — | — | — | 3.7 |
| China | 0.6 | — | — | — | 0.6 |
| Czech Republic | 0.7 | — | — | — | 0.7 |
| Denmark | 17.9 | — | — | — | 17.9 |
| Finland | 7.7 | — | — | — | 7.7 |
| France | 237.0 | 5.9 | — | — | 242.9 |
| Germany | 175.7 | — | — | — | 175.7 |
| Hong Kong | 9.3 | — | — | — | 9.3 |
| Ireland | 1.4 | — | — | — | 1.4 |
| Italy | 16.1 | — | — | — | 16.1 |
| Japan | 18.8 | — | — | — | 18.8 |
| Luxembourg | 2.6 | — | — | — | 2.6 |
| Mexico | 7.0 | — | — | — | 7.0 |
| Netherlands | 100.0 | — | — | — | 100.0 |
| New Zealand | 10.0 | — | — | — | 10.0 |
| Norway | 17.7 | — | — | — | 17.7 |
| Portugal | 6.7 | — | — | — | 6.7 |
| South Africa | 6.0 | — | — | — | 6.0 |
| Spain | 56.5 | — | — | — | 56.5 |
| Sweden | 23.9 | — | — | — | 23.9 |
| Switzerland | 50.0 | — | — | — | 50.0 |
| United Arab Emirates | 3.5 | — | — | — | 3.5 |
| United Kingdom | 821.0 | — | 480.3 | — | 1,301.3 |
| USA | 895.5 | — | 31.0 | — | 926.5 |
| Zambia | 1.3 | — | — | — | 1.3 |
| Supranational | — | — | — | 25.2 | 25.2 |
| **Total** | 2,702.3 | 5.9 | 511.3 | 25.2 | 3,244.7 |

**Note:**

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

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

| At 31 December | 2023 £m | 2023 % | 2022 £m | 2022 % |
|---|---|---|---|---|
| Basic materials | **43.0** | **1%** | 48.9 | 2% |
| Communications | **135.7** | **4%** | 131.1 | 4% |
| Consumer, cyclical | **244.2** | **7%** | 274.7 | 8% |
| Consumer, non-cyclical | **216.2** | **7%** | 223.0 | 7% |
| Diversified | **16.9** | **1%** | 14.3 | 0% |
| Energy | **81.6** | **3%** | 81.2 | 3% |
| Financial | **1,424.5** | **43%** | 1,452.6 | 45% |
| Industrial | **145.8** | **4%** | 158.5 | 5% |
| Sovereign, supranational and local government | **707.3** | **21%** | 542.3 | 16% |
| Technology | **65.6** | **2%** | 50.2 | 2% |
| Transport | **12.8** | **0%** | 12.7 | 0% |
| Utilities | **215.1** | **7%** | 255.2 | 8% |
| **Total** | **3,308.7** | **100%** | 3,244.7 | 100% |

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

| At 31 December | 2023 £m | 2023 % | 2022 £m | 2022 % |
|---|---|---|---|---|
| Social, of which: | | | | |
| Education | **93.0** | **44%** | 105.2 | 44% |
| Health | **60.5** | **28%** | 63.8 | 27% |
| Other | **43.9** | **20%** | 47.4 | 20% |
| Transport | **16.8** | **8%** | 20.4 | 9% |
| **Total** | **214.2** | **100%** | 236.8 | 100% |

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

## Spread risk

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

## Net interest rate risk

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

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

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

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro debt securities, the Group hedges its exposure to US dollar and Euro interest rate risk using swaps, excluding £307.4 million of US dollar short-duration, high-yield bonds (2022: £286.8 million), £137.3 million of US dollar subordinated financial debt and £118.1 million of Euro subordinated financial debt (2022: £134.4 million and £93.6 million, respectively).

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

### IBOR reform

During the year ended 31 December 2021, the Group transitioned to alternative benchmark rates for most of its relevant financial instruments, implementing the relevant risk-free rate benchmarks and other relevant agreements.

As at 31 December 2023, the Group has determined it has no remaining exposures (2022: nominal exposure of £238.2 million) from financial instruments subject to IBOR reform. Where legal documentation has not been completed, in the immediate future reference of rates will be linked to synthetic GBP LIBOR.

## 3. Risk management continued

### 3.3.2 Market risk continued

#### Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2023, the value of these property investments was £277.1 million (2022: £278.5 million). The property investments are located in the UK.

#### Currency risk

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

The Group maintains exposure to US dollar securities through £763.1 million (2022: £751.0 million) of investments in US dollar bonds and Euro securities through £219.1 million (2022: £165.4 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

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

#### Use of derivatives

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

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

| | Notional amounts | Maturity and fair value | | | |
|---|---|---|---|---|---|
| | | Less than 1 year | 1 – 5 years | Over 5 years | Total |
| **At 31 December 2023** | £m | £m | £m | £m | £m |
| **Derivative assets** | | | | | |
| **At fair value through profit or loss** | | | | | |
| Foreign exchange contracts (forwards) | **1,568.7** | 27.1 | — | — | **27.1** |
| Interest rate swaps | **49.2** | 0.1 | 0.2 | — | **0.3** |
| **Total** | **1,617.9** | **27.2** | **0.2** | **—** | **27.4** |

| | Notional amounts | Maturity and fair value | | | |
|---|---|---|---|---|---|
| | | Less than 1 year | 1 – 5 years | Over 5 years | Total |
| **At 31 December 2023** | £m | £m | £m | £m | £m |
| **Derivative liabilities** | | | | | |
| **At fair value through profit or loss** | | | | | |
| Foreign exchange contracts (forwards) | **908.4** | 8.2 | — | — | **8.2** |
| Interest rate swaps | **252.8** | — | 1.7 | 5.2 | **6.9** |
| **Designated as hedging instruments** | | | | | |
| Foreign exchange contracts (forwards) | **14.2** | 0.3 | — | — | **0.3** |
| **Total** | **1,175.4** | **8.5** | **1.7** | **5.2** | **15.4** |

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

| At 31 December 2022 | Notional amounts £m | Maturity and fair value: Less than 1 year £m | 1 – 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Derivative liabilities** | | | | | |
| **At fair value through profit or loss** | | | | | |
| Foreign exchange contracts (forwards) | 1,190.4 | 28.4 | — | — | 28.4 |
| Interest rate swaps | 107.6 | — | 0.2 | 1.0 | 1.2 |
| **Total** | 1,298.0 | 28.4 | 0.2 | 1.0 | 29.6 |

## Sensitivity analysis

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

| | Increase/(decrease) in profit before tax[1] at 31 December: **2023 £m** | 2022 £m |
|---|---|---|
| **Spread** | | |
| Impact of a 100 basis points increase in spreads on financial investments[2] | **(72.1)** | (82.3) |
| **Interest rate** | | |
| Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3] | **(62.2)** | (64.7) |
| **Investment property** | | |
| Impact of a 15% decrease in property markets | **(41.6)** | (41.8) |

**Notes:**

1. These sensitivities exclude the impact of taxation and have not considered the impact of the general market changes on the value of the Group's insurance liabilities. They reflect one-off impacts at 31 December and should not be interpreted as predictions.
2. The impact on profit or loss does not reflect any fair value movement in infrastructure debt, commercial real estate loans and private placement debt securities that would not be recorded in the financial statements under IFRS 9 as they are classified as loans and receivables and private placement respectively, which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in spreads would have been £11.7 million (2022: £13.5 million) and a 100 basis points increase in interest rates would have been £2.8 million (2022: £3.7 million).
3. The sensitivities set out above reflect one-off impacts at 31 December, with the exception of the statement of profit or loss interest rate sensitivity on financial investments and derivatives, which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.

## 3. Risk management continued

### 3.3.2 Market risk continued

The Group has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2023, the Group has pledged £16.6 million in cash (2022: £19.2 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2023, counterparties have pledged £12.8 million in cash (2022: £7.1 million in cash) to the Group to cover in-the-money derivative positions.

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

### 3.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Group. The Group is mainly exposed to counterparty default risk.

#### Counterparty default risk

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

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty or that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where the customer makes a declaration of significant financial difficulty, or the account has been transferred to recoveries and the relationship is terminated.

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

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

The Group cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against recoveries as it remains liable for claims payments to policyholders in case of reinsurer default. The financial security of the Group's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A– for short tail reinsurance and the majority of long tail reinsurance to be purchased from reinsurers rated A+ or above with a maximum of 10% of the risk to be placed with reinsurers with a rating between A- and A+ at the time cover is purchased. The reinsurance and credit manager monitors the credit rating of the Group's current and potential reinsurance counterparties on a regular basis. The Group aims to deal with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

The following tables analyse the carrying value of the Group's financial, insurance and reinsurance contracts assets that bear counterparty default risk between those assets that have not been impaired by age in relation to due date and those that have been impaired.

The Group's maximum exposure to credit risk is represented by the carrying value of financial investments , cash and cash equivalent, the carrying value of loans and advances and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements which are settled on a net basis. In addition, the Group operates 100% quota share reinsurance treaty on its brokered commercial business which was sold to RSA Insurance Limited on a funds withheld basis, which substantially reduces credit risk, as the Group retains the cash received from policyholders. The Group does not use credit derivatives or similar instruments to mitigate exposure.

All financial investments held at amortised cost have been assessed for impairment using the expected credit loss model under IFRS 9. The assessment has been made based on the externally available credit ratings of the entities.

Infrastructure debt and commercial real estate loans are held with well rated institutions and are held at book value, with impairment calculated in a similar manner to debt securities. All assets which require a calculation of impairment, are considered based on an external credit rating agency or an assessment from external asset managers. The credit rating of all assets is regularly monitored. As at the year-end reporting date, the vast majority of financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12-month expected loss is used to calculate the impairment provision required. Any assets downgraded to below BBB or any sub BBB asset that is downgraded by 1 full credit rating, are considered by the Group to have significantly increased in credit risk, and therefore are stage 2 or stage 3 under IFRS 9.

| At 31 December 2023 | Neither past due nor impaired £m | Past due 1 – 90 days £m | Past due more than 90 days £m | Carrying value in the statement of financial position £m |
|---|---|---|---|---|
| Reinsurance contract assets | **1,340.4** | 5.5 | 0.1 | **1,346.0** |
| Other receivables | **32.9** | 2.0 | 0.3 | **35.2** |
| Derivative financial instruments | **27.4** | — | — | **27.4** |
| Debt securities | **3,308.7** | — | — | **3,308.7** |
| Infrastructure debt | **214.2** | — | — | **214.2** |
| Commercial real estate loans | **145.9** | — | — | **145.9** |
| Cash and cash equivalents[1] | **1,772.2** | — | — | **1,772.2** |
| Other loans | **3.1** | — | — | **3.1** |
| **Total** | **6,844.8** | **7.5** | **0.4** | **6,852.7** |

| At 31 December 2022 | Neither past due nor impaired £m | Past due 1 – 90 days £m | Past due more than 90 days £m | Carrying value in the statement of financial position £m |
|---|---|---|---|---|
| Reinsurance contract assets | 1,065.2 | 9.6 | 0.1 | 1,074.9 |
| Other receivables | 33.7 | 0.6 | 0.2 | 34.5 |
| Derivative financial instruments | 31.3 | — | — | 31.3 |
| Debt securities | 3,244.7 | — | — | 3,244.7 |
| Infrastructure debt | 236.8 | — | — | 236.8 |
| Commercial real estate loans | 198.9 | — | — | 198.9 |
| Cash and cash equivalents[1] | 1,003.6 | — | — | 1,003.6 |
| Other loans | 1.6 | — | — | 1.6 |
| **Total** | 5,815.8 | 10.2 | 0.3 | 5,826.3 |

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

Within the analysis of debt securities above are bank debt securities at 31 December 2023 of £973.7 million (2022: £961.2 million) that can be further analysed as: secured £11.1 million (2022: £11.2 million); unsecured £770.6 million (2022: £795.3 million); and subordinated £192.0 million (2022: £154.7 million).

The Group's maximum exposure to credit risk from Insurance contract assets is £5.4 million (2022: £17.3 million).

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

| At 31 December 2023 | AAA £m | AA+ to AA- £m | A+ to A- £m | BBB+ to BBB- £m | BB+ and below £m | Not rated £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| Corporate | 56.8 | 152.7 | 1,201.6 | 899.6 | 289.2 | 1.5 | **2,601.4** |
| Supranational | 25.6 | — | — | — | — | — | **25.6** |
| Local government | 0.9 | — | — | — | — | — | **0.9** |
| Sovereign | 4.7 | 676.1 | — | — | — | — | **680.8** |
| **Total** | **88.0** | **828.8** | **1,201.6** | **899.6** | **289.2** | **1.5** | **3,308.7** |

| At 31 December 2022 | AAA £m | AA+ to AA- £m | A+ to A- £m | BBB+ to BBB- £m | BB+ and below £m | Not rated £m | Total £m |
|---|---|---|---|---|---|---|---|
| Corporate | 67.7 | 158.1 | 1,268.4 | 919.8 | 286.6 | 1.7 | 2,702.3 |
| Supranational | 25.2 | — | — | — | — | — | 25.2 |
| Local government | — | 5.9 | — | — | — | — | 5.9 |
| Sovereign | 31.0 | 480.3 | — | — | — | — | 511.3 |
| **Total** | 123.9 | 644.3 | 1,268.4 | 919.8 | 286.6 | 1.7 | 3,244.7 |

## 3. Risk management continued

### 3.3.3 Credit risk continued

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after provision. The Group's approach to reinsurance counterparty default risk is detailed on page 204.

| At 31 December 2023 | AAA £m | AA+ to AA- £m | A+ to A- £m | BBB+ to BBB- £m | BB+ and below £m | Not rated £m | Total £m |
|---|---|---|---|---|---|---|---|
| Reinsurance contract assets | — | 290.5 | 1,047.5 | 2.4 | — | — | **1,340.4** |
| Other receivables | 0.4 | 1.7 | 4.8 | 0.3 | — | 25.7 | **32.9** |
| Derivative financial instruments | — | 26.4 | 0.4 | 0.6 | — | — | **27.4** |
| Infrastructure debt | — | — | 34.5 | 179.7 | — | — | **214.2** |
| Commercial estate loans | 12.1 | 47.9 | 51.6 | 28.6 | 5.7 | — | **145.9** |
| Cash and cash equivalents[1] | 1,624.2 | 14.0 | 133.0 | 0.9 | — | 0.1 | **1,772.2** |
| Other loans | — | — | — | — | — | 3.1 | **3.1** |
| **Total** | **1,636.7** | **380.5** | **1,271.8** | **212.5** | **5.7** | **28.9** | **3,536.1** |

| At 31 December 2022 | AAA £m | AA+ to AA- £m | A+ to A- £m | BBB+ to BBB- £m | BB+ and below £m | Not rated £m | Total £m |
|---|---|---|---|---|---|---|---|
| Reinsurance contract assets | — | 440.7 | 622.2 | 0.9 | — | 1.4 | 1,065.2 |
| Other receivables | — | 0.1 | 0.3 | — | — | 33.3 | 33.7 |
| Derivative financial instruments | — | 7.9 | 23.4 | — | — | — | 31.3 |
| Infrastructure debt | — | — | 38.2 | 191.8 | 6.8 | — | 236.8 |
| Commercial estate loans | 15.7 | 64.1 | 88.1 | 24.0 | 7.0 | — | 198.9 |
| Cash and cash equivalents[1] | 878.8 | 7.8 | 116.1 | 0.9 | — | — | 1,003.6 |
| Other loans | — | — | — | — | — | 1.6 | 1.6 |
| **Total** | 894.5 | 520.6 | 888.3 | 217.6 | 13.8 | 36.3 | 2,571.1 |

**Note:**

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

Debt instruments measured at amortised cost.

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss £m | Lifetime expected credit loss £m | **Total £m** | 12 month expected credit loss £m | Lifetime expected credit loss £m | Total £m |
| AA+ to AA- | 11.5 | — | **11.5** | 11.5 | — | 11.5 |
| A+ to A- | 16.0 | — | **16.0** | 42.8 | — | 42.8 |
| BBB+ to BBB- | 33.8 | — | **33.8** | 33.8 | — | 33.8 |
| BB+ and below | — | 10.1 | **10.1** | — | 10.1 | 10.1 |
| **Total** | **61.3** | **10.1** | **71.4** | 88.1 | 10.1 | 98.2 |

Loans and receivables measured at amortised cost:

The table below shows the credit quality and the maximum exposure to credit risk per the Group's internal credit rating model. The amounts presented are gross of ECL allowances:

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss | Lifetime expected credit loss | **Total** | 12 month expected credit loss | Lifetime expected credit loss | Total |
| | £m | £m | **£m** | £m | £m | £m |
| AAA | 12.1 | — | **12.1** | 15.7 | — | 15.7 |
| AA+ to AA- | 47.9 | — | **47.9** | 64.1 | — | 64.1 |
| A+ to A- | 86.2 | — | **86.2** | 126.4 | — | 126.4 |
| BBB+ to BBB- | 209.4 | — | **209.4** | 217.1 | — | 217.1 |
| BB+ and below | — | 28.9 | **28.9** | — | 35.9 | 35.9 |
| Not rated | — | 3.4 | **3.4** | — | 1.9 | 1.9 |
| **Total** | **355.6** | **32.3** | **387.9** | 423.3 | 37.8 | 461.1 |

The Group's Investment and Treasury team prepares internal ratings for instruments held in which its counterparties are rated using internal grades (AAA to BB+ and below). The ratings are determined incorporating both qualitative and quantitative information that builds on information from credit agencies, supplemented with information specific to the counterparty and other external information that could affect the counterparty's behaviour. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

The tables below analyse the change in the carrying amount and loss allowance of debt securities measured at amortised cost and the corresponding ECL.

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss | Lifetime expected credit loss | **Total** | 12 month expected credit loss | Lifetime expected credit loss | Total |
| **Carrying amount** | £m | £m | **£m** | £m | £m | £m |
| Amortised cost as at 1 January | 88.1 | 10.1 | **98.2** | 81.1 | 10.1 | 91.2 |
| New assets originated or purchased | — | — | **—** | 7.0 | — | 7.0 |
| Assets derecognised or matured | (26.8) | — | **(26.8)** | — | — | — |
| **Amortised cost as at 31 December** | **61.3** | **10.1** | **71.4** | 88.1 | 10.1 | 98.2 |

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss | Lifetime expected credit loss | **Total** | 12 month expected credit loss | Lifetime expected credit loss | Total |
| **Loss allowance** | £m | £m | **£m** | £m | £m | £m |
| Loss allowance as at 1 January | (0.4) | (0.6) | **(1.0)** | (0.5) | (0.7) | (1.2) |
| Effect of changes in assessed ECL | 0.1 | 0.1 | **0.2** | 0.1 | 0.1 | 0.2 |
| **Loss allowance as at 31 December** | **(0.3)** | **(0.5)** | **(0.8)** | (0.4) | (0.6) | (1.0) |

The tables below analyse the change in the carrying amount and loss allowance of loans and receivables measured at amortised cost and the corresponding ECL.

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss | Lifetime expected credit loss | **Total** | 12 month expected credit loss | Lifetime expected credit loss | Total |
| **Carrying amount** | £m | £m | **£m** | £m | £m | £m |
| Amortised cost as at 1 January | 423.3 | 37.8 | **461.1** | 435.8 | 35.9 | 471.7 |
| New assets originated or purchased | — | 1.5 | **1.5** | 40.8 | 1.9 | 42.7 |
| Assets derecognised or matured | (75.5) | — | **(75.5)** | (56.1) | — | (56.1) |
| Accrued interest capitalised | 0.8 | — | **0.8** | 2.8 | — | 2.8 |
| Transfer to 12 month ECL | 7.0 | (7.0) | **—** | — | — | — |
| **Amortised cost as at 31 December** | **355.6** | **32.3** | **387.9** | 423.3 | 37.8 | 461.1 |

## 3. Risk management continued

### 3.3.3 Credit risk continued

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 12 month expected credit loss | Lifetime expected credit loss | **Total** | 12 month expected credit loss | Lifetime expected credit loss | Total |
| **Loss allowance** | £m | £m | **£m** | £m | £m | £m |
| Loss allowance as at 1 January | (1.5) | (22.3) | **(23.8)** | (2.2) | (20.7) | (22.9) |
| Transfer to lifetime ECL | (0.1) | 0.1 | **—** | — | — | — |
| Effect of changes in assessed ECL | 0.5 | (1.4) | **(0.9)** | 0.7 | (1.6) | (0.9) |
| **Loss allowance as at 31 December** | **(1.1)** | **(23.6)** | **(24.7)** | (1.5) | (22.3) | (23.8) |

### 3.3.4 Operational risk

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

#### Change risk

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

#### Technology and infrastructure risk

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

#### Supplier management and outsourcing risk

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

#### Cyber risk

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

#### Partnership contractual obligations

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

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

#### Risk concentrations and management

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

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

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

### 3.3.5 Liquidity risk

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

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

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

| At 31 December 2023 | Within 1 year £m | 1 – 3 years £m | 3 – 5 years £m | 5 – 10 years £m | Over 10 years £m | **Total £m** |
|---|---|---|---|---|---|---|
| Debt securities | 566.1 | 1,542.0 | 598.2 | 503.6 | 98.8 | **3,308.7** |
| Infrastructure debt | 20.4 | 32.8 | 41.2 | 81.8 | 38.0 | **214.2** |
| Commercial real estate loans | 46.5 | 55.5 | 43.9 | — | — | **145.9** |
| Cash and cash equivalents[1] | 1,772.2 | — | — | — | — | **1,772.2** |
| Other loans | — | 0.4 | 2.7 | — | — | **3.1** |
| **Total** | **2,405.2** | **1,630.7** | **686.0** | **585.4** | **136.8** | **5,444.1** |

| At 31 December 2022 | Within 1 year £m | 1 – 3 years £m | 3 – 5 years £m | 5 – 10 years £m | Over 10 years £m | Total £m |
|---|---|---|---|---|---|---|
| Debt securities | 798.6 | 979.0 | 807.3 | 530.9 | 128.9 | 3,244.7 |
| Infrastructure debt | 18.9 | 34.8 | 41.2 | 91.2 | 50.7 | 236.8 |
| Commercial real estate loans | 55.9 | 63.3 | 79.7 | — | — | 198.9 |
| Cash and cash equivalents[1] | 1,003.6 | — | — | — | — | 1,003.6 |
| Other loans | — | — | 1.6 | — | — | 1.6 |
| **Total** | 1,877.0 | 1,077.1 | 929.8 | 622.1 | 179.6 | 4,685.6 |

**Note:**

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

The following table analyses the undiscounted cash flows of insurance liabilities based on the future cash flows expected to be paid out in the periods presented, and financial and other liabilities by maturity dates.

| At 31 December 2023 | Less than 1 year £m | 1 – 3 years £m | 3 – 5 years £m | 5 – 10 years £m | Over 10 years £m | **Total £m** | Carrying value £m |
|---|---|---|---|---|---|---|---|
| Subordinated liabilities | 10.4 | 20.8 | 20.8 | 296.4 | — | **348.4** | 258.8 |
| Insurance contract liabilities | 2,050.0 | 1,365.1 | 781.0 | 564.4 | 602.7 | **5,363.2** | 3,874.0 |
| Borrowings | 82.4 | — | — | — | — | **82.4** | 82.4 |
| Lease liabilities | 12.7 | 22.3 | 23.0 | 51.4 | 27.3 | **136.7** | 106.1 |
| Provisions | 30.3 | 0.4 | 0.1 | — | — | **30.8** | 30.8 |
| Trade and other payables | 157.4 | 6.1 | 0.1 | — | — | **163.6** | 163.6 |
| **Total** | **2,343.2** | **1,414.7** | **825.0** | **912.2** | **630.0** | **6,125.1** | **4,515.7** |

| At 31 December 2022 | Less than 1 year £m | 1 – 3 years £m | 3 – 5 years £m | 5 – 10 years £m | Over 10 years £m | Total £m | Carrying value £m |
|---|---|---|---|---|---|---|---|
| Subordinated liabilities | 10.4 | 20.8 | 20.8 | 306.8 | — | 358.8 | 258.6 |
| Insurance contract liabilities | 1,460.7 | 902.0 | 474.7 | 371.2 | 1,498.3 | 4,706.9 | 3,394.3 |
| Borrowings | 65.2 | — | — | — | — | 65.2 | 65.2 |
| Lease liabilities | 10.9 | 17.6 | 14.3 | 32.2 | 27.8 | 102.8 | 81.6 |
| Provisions | 9.6 | 0.5 | 0.1 | — | — | 10.2 | 10.2 |
| Trade and other payables | 140.7 | 6.1 | 0.2 | — | — | 147.0 | 147.0 |
| **Total** | 1,697.5 | 947.0 | 510.1 | 710.2 | 1,526.1 | 5,390.9 | 3,956.9 |

## 3. Risk management continued

### 3.3.5 Liquidity risk continued

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

| At 31 December 2023 | Within 1 year £m | 1 – 3 years £m | 3 – 5 years £m | 5 – 10 years £m | **Total £m** | Carrying value £m |
|---|---|---|---|---|---|---|
| Derivative assets | 27.6 | (0.1) | (0.1) | — | **27.4** | 27.4 |
| Derivative liabilities | (14.4) | (1.0) | — | — | **(15.4)** | (15.4) |
| **Total** | **13.2** | **(1.1)** | **(0.1)** | **—** | **12.0** | **12.0** |

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

### 3.4 Capital management

At 31 December 2023, the Group's capital position was comprised of shareholders' equity of £2,058.2 million (31 December 2022: £1,845.3 million) and Tier 1 notes of £346.5 million (31 December 2022: £346.5 million). In addition, the Group's consolidated statement of financial position also included £258.8 million of subordinated loan capital (31 December 2022: £258.6 million) which is classified as Tier 2 for Solvency II purposes.

The Group manages capital in accordance with the Group's capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Group seeks to hold capital resources such that, in normal circumstances, the solvency capital ratio is around the middle of the target range of 140% to 180%. At 31 December 2023, the Group's solvency capital ratio was 197% (31 December 2022: 147%)

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

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

### 3.5 Capital adequacy (unaudited)

Using the Group's partial internal model, there is a capital surplus of approximately £1.10 billion above an estimated SCR of £1.13 billion as at 31 December 2023 (31 December 2022: £0.57 billion and £1.21 billion respectively). The Group's capital requirements and solvency position are produced and presented to the Board on a regular basis.

## 4. Segmental analysis

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

### Motor

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

### Home

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

### Rescue and other personal lines

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

### Commercial

This segment consists of commercial insurance for small and micro-sized enterprises sold direct through the Group's brands Direct Line for Business and Churchill. Both brands sell products directly to customers and Churchill also sells products through PCWs.

### Brokered commercial business and run-off[1] partnerships

On 6 September 2023 the Group announced the sale of its brokered commercial insurance business to Royal & Sun Alliance Insurance Limited. Under the terms of the agreement, the Group has retained the back book of the business written and earned prior to 1 October 2023 (the "Risk Transfer Date"). Business written subsequent to the Risk Transfer Date is subject to a quota share arrangement between the two companies. Over time the two companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date.

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

The Group has aggregated and excluded the results of the brokered commercial business and run-off partnerships from its ongoing results and has restated all relevant comparatives across the report. Results relating to ongoing operations will be clearly labelled. The segmental analysis has been amended to reflect the changes. The profit/(loss) before restructuring and one-off costs relating to the brokered commercial business and run-off partnerships in 2023 was £50.0 million profit and £28.0 million loss (2022: £17.9 million profit and £13.6 million loss respectively).

### Inter-segmental transactions

No inter-segment transactions occurred in the year ended 31 December 2023 (2022: £nil). If any transaction were to occur, transfer prices between operating segments would be set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

For each operating segment, there are no individual policyholders or customers that represent 10% or more of the Group's total revenue.
The table below analyses the Group's revenue and results by reportable segment for the year ended 31 December 2023.

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

## 4. Segmental analysis continued

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

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

**Notes:**
1. Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
2. See glossary on page 263 for definitions. The Group incurred £59.5 million of restructuring and one-off costs in 2023, which were predominantly driven by work carried out in relation to the Group's two past business reviews, cost efficiency initiatives and impairments.
3. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

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

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

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

| | Motor £m | Home £m | RoPL[1,2] £m | Commercial £m | **Total Group - ongoing operations[1] £m** | Brokered commercial business £m | Run-off partnerships[1] £m | **Total Group £m** |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 130.4 | 45.8 | 28.7 | — | **204.9** | 10.1 | — | **215.0** |
| Assets held for sale | 25.4 | 5.0 | 1.5 | 1.9 | **33.8** | 6.8 | 0.3 | **40.9** |
| Other segment assets | 3,818.4 | 736.1 | 246.1 | 287.2 | **5,087.8** | 939.3 | 48.5 | **6,075.6** |
| Reinsurance contract assets | 956.1 | 19.1 | 1.4 | 20.0 | **996.6** | 78.0 | 0.3 | **1,074.9** |
| Insurance contract assets | — | — | — | — | **—** | — | 17.3 | **17.3** |
| Reinsurance contract liabilities | — | (5.2) | (1.2) | (2.6) | **(9.0)** | (4.5) | (0.4) | **(13.9)** |
| Insurance contract liabilities | (2,860.2) | (567.0) | (171.5) | (214.9) | **(3,813.6)** | (755.5) | (56.7) | **(4,625.8)** |
| Other segment liabilities | (367.5) | (72.9) | (22.0) | (27.6) | **(490.0)** | (97.1) | (5.1) | **(592.2)** |
| **Segment net assets** | **1,702.6** | **160.9** | **83.0** | **64.0** | **2,010.5** | **177.1** | **4.2** | **2,191.8** |

**Notes:**
1. Ongoing operations and run-off partnerships – See glossary on pages 261 to 264 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.
2. See glossary on page 263 for definitions.
3. This segmental analysis is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

## 5. Insurance service result

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

**Note:**
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. This includes vehicle replacement referral fees, salvage income and legal services fees which have been assessed as part of the IFRS 17 contract boundary.

## 6. Investment return and net insurance financial result

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

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

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

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

**Notes:**
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Foreign exchange forward contracts and interest rate swaps are measured at fair value through the statement of profit or loss, other than a small number of immaterial cash flow hedges.

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

## 7. Other operating expenses

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

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

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

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

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

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

Of the total aggregate remuneration, £15.7 million relates to other operating expenses with the remainder included within the Insurance service result as part of other directly attributable expenses, see note 5 for further details.

## 7. Other operating expenses continued

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Fees payable for the audit of: | | |
| The Company's annual accounts | **0.5** | 0.4 |
| The Company's subsidiaries | **3.3** | 2.6 |
| Total audit fees | **3.8** | 3.0 |
| | | |
| Audit-related assurance services | **0.4** | 0.2 |
| Other assurance services | **0.2** | — |
| Non-audit services | **1.6** | — |
| **Total**[1] | **6.0** | 3.2 |

**Notes:**

1. Total audit fees, excluding VAT.
2. An additional non-audit service has been provided in 2024 for fees of £0.4 million for reporting accountant services.

### Aggregate Directors' emoluments

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Salaries, fees, bonuses and benefits in kind | **3.7** | 2.6 |
| Gains on exercise of share options | **0.3** | 1.8 |
| **Total** | **4.0** | 4.4 |

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

At 31 December 2023, no Directors (2022: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2023, one Director exercised share options (2022: two Directors).

## 8. Other finance costs

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

**Note:**

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

## 9. Gain on disposal of business

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

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

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

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

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

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

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

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

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

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

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

## 10. Tax charge/(credit)

| | 2023 £m | 2022 £m restated[1] |
|---|---|---|
| Current taxation: | | |
| Charge/(credit) for the year | **24.3** | (9.8) |
| Over-provision in respect of prior period | **(2.6)** | (3.0) |
| | **21.7** | (12.8) |
| Deferred taxation (note 13): | | |
| Charge/(credit) for the year | **29.5** | (61.0) |
| Under-provision for the year-provision in respect of prior year | **3.3** | 3.9 |
| | **32.8** | (57.1) |
| Current taxation | **21.7** | (12.8) |
| Deferred taxation (note 11) | **32.8** | (57.1) |
| **Tax charge/(credit) for the year** | **54.5** | (69.9) |

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

The following table analyses the difference between the actual income tax (credit)/charge and the expected income tax (credit)/ charge computed by applying the standard rate of corporation tax of 23.5%[1] (2022: 19.0%).

| | 2023 £m | 2022 £m restated[2] |
|---|---|---|
| Profit/(loss) for the year | **277.4** | (301.8) |
| Expected tax charge/(credit) | **65.2** | (57.3) |
| Effects of: | | |
| Previously unrecognised capital losses now offset against capital gains | **(12.4)** | — |
| Disallowable expenses | **3.7** | 3.4 |
| Non-taxable items | **(0.1)** | (0.3) |
| Movement in deferred tax asset/liability not recognised | **(0.1)** | — |
| Higher tax rates on overseas earnings | **—** | 0.1 |
| Effect of change in corporation taxation rate[1] | **0.2** | (15.2) |
| Under-provision in respect of prior year | **0.7** | 0.9 |
| Revaluation of property | **1.2** | 1.7 |
| Deductible Tier 1 notes coupon payment in equity | **(3.9)** | (3.2) |
| **Tax charge/(credit) for the year** | **54.5** | (69.9) |
| **Effective income tax rate** | **19.6%** | 23.2% |

**Notes:**
1. In the Finance Act 2021, the UK Government enacted, on 10 June 2021, an increase in the UK corporation tax rate from 19% to 25% effective from 1 April 2023. As a consequence the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the temporary differences reverse. The impact of these changes on the tax (credit)/charge for the year is set out in the table above.
2. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

## 11. Current and deferred tax

The aggregate current and deferred tax relating to items that are credited to equity is £0.3 million (2022: £0.2 million).

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

| | Provisions and other temporary differences £m | Retirement benefit obligations £m | Depreciation in excess of capital allowances £m | Share-based payments £m | Transitional adjustments on adoption of IFRS 9 £m | Transitional adjustments on adoption of IFRS 17 £m | Total £m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022 (restated[1])** | 6.0 | (3.1) | (4.7) | 3.5 | (1.7) | 29.4 | 29.4 |
| (Charge)/credit to the statement of profit or loss | (1.4) | 0.2 | (4.3) | (1.7) | 67.1 | (2.8) | 57.1 |
| Credit to other comprehensive income | — | 2.5 | — | — | — | — | 2.5 |
| Credit direct to equity | — | — | — | — | — | — | — |
| **At 31 December 2022[1]** | 4.6 | (0.4) | (9.0) | 1.8 | 65.4 | 26.6 | 89.0 |
| (Charge)/credit to the statement of profit or loss | **(2.9)** | **0.1** | **2.0** | **0.9** | **(6.3)** | **(26.6)** | **(32.8)** |
| Credit direct to equity | **–** | **–** | **–** | **0.3** | **–** | **–** | **0.3** |
| **At 31 December 2023** | **1.7** | **(0.3)** | **(7.0)** | **3.0** | **59.1** | **–** | **56.5** |

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

A deferred tax asset of £59.1 million (2022: £65.4 million) relates to future tax relief on adoption of IFRS 9 which is spread evenly over 10 years from 1 January 2023. A deferred tax asset of £Nil (2022: £26.6 million) relates to tax relief on adoption of IFRS17 which is applicable in 2023. Other deferred tax assets will be recovered over a period of 1 to 12 years.

As at 31 December 2023, the Group has an unrecognised deferred tax asset of £0.1 million (2022: £13.0 million) in relation to capital losses, of which £Nil (2022 £11.8 million) relates to realised losses and £0.1 million (2022 £1.2 million) related to unrealised losses.

Deferred tax assets have been recognised in respect of IFRS 9 transitional tax adjustments and all other temporary differences because it is probable that these assets will be recovered, with the exception of unrecognised capital losses, where recovery is uncertain as it is dependent on realising future capital gains. The deferred tax asset in respect of IFRS 9 transitional tax adjustments is relieved for tax over 10 years from the adoption of IFRS 9 on 1 January 2023. Other deferred tax assets will be recovered over a period of one to 12 years.

Recovery of deferred tax assets is dependent on future taxable profits, which are expected to arise in future years without the combination of factors that led to the trading losses for 2023 and 2022, and without the one off gain on disposal of the brokered commercial business in 2023. Probability of recovery has been assessed based on the group's forecasts for the next four years which anticipate a return to profitability, and it is assumed that sufficient profits will continue to be realised in subsequent years for offset of the remaining future tax deductions.

## 12. Dividends and appropriations

| | **2023 £m** | Full year 2022 £m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| 2022 interim dividend of 7.6 pence per share paid on 9 September 2022 | **–** | 99.0 |
| 2021 final dividend of 15.1 pence per share paid on 17 May 2022 | **–** | 198.9 |
| | **–** | 297.9 |
| Coupon payments in respect of Tier 1 notes[1] | **16.6** | 16.6 |
| | **16.6** | 314.5 |
| Proposed dividends: | | |
| 2023 final dividend of 4 pence per share | **52.5** | — |

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

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

The trustees of the employee share trusts waived their entitlement to dividends on shares held to meet obligations arising on the Long-Term Incentive Plan, Deferred Annual Incentive Plan and Restricted Share Plan awards, which reduced the total dividends paid for the year ended 31 December 2022 by £2.0 million. No dividends were paid or proposed during the year ended 31 December 2023.

## 13. Earnings/(loss) per share

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

### Basic

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

### Diluted

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

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

**Note:**
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. As at 31 December 2022, 15.0 million share options and contingently issuable shares are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

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

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

## 14. Net asset value per share and return on equity

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

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

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

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

**Notes:**
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Goodwill has arisen on acquisition by the Group of subsidiary companies and on acquisition of new accident repair centres. Intangible assets primarily comprise software development costs:

### Return on equity

The table below details the calculation of return on equity:

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

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

## 15. Goodwill and other intangible assets

| | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | 215.0 | 1,182.1 | 1,397.1 |
| Acquisitions and additions | — | 108.4 | 108.4 |
| Disposals and write-off | — | (71.7) | (71.7) |
| **At 31 December 2022** | 215.0 | 1,218.8 | 1,433.8 |
| Acquisitions and additions | **3.6** | **124.1** | **127.7** |
| Disposals and write-off[1] | **(10.1)** | **(14.1)** | **(24.2)** |
| **At 31 December 2023** | **208.5** | **1,328.8** | **1,537.3** |
| **Accumulated amortisation and impairment** | | | |
| **At 1 January 2022** | — | 574.6 | 574.6 |
| Amortisation charge for the year | — | 92.7 | 92.7 |
| Disposals and write-off | — | (71.7) | (71.7) |
| Impairment losses[2] | — | 16.0 | 16.0 |
| **At 31 December 2022** | — | 611.6 | 611.6 |
| Amortisation charge for the year | **—** | **100.6** | **100.6** |
| Disposals and write-off[1] | **—** | **(8.1)** | **(8.1)** |
| Impairment losses[2] | **—** | **14.6** | **14.6** |
| **At 31 December 2023** | **—** | **718.7** | **718.7** |
| **Carrying amount** | | | |
| **At 31 December 2023** | **208.5** | **610.1** | **818.6** |
| **At 31 December 2022** | 215.0 | 607.2 | 822.2 |

**Notes:**
1. Disposals and write-off of goodwill arose from the sale of the brokered commercial business . The sale of the brokered commercial business is detailed further in note 9. Disposals and write-off of other intangible assets include fully amortised intangible assets no longer utilised by the Group in its operating activities.
2. Impairment losses relate to capitalised software development costs for ongoing IT projects primarily relating to development of new systems, and intangible assets no longer utilised by the Group in its operating activities following the sale of the brokered commercial business. Of this amount, £5.4 million (2022: £16.0 million) is included within Other operating expenses and £9.2 million (2022: £nil) is included within Gain on disposal of business.

Included within other intangible assets are assets still under development of £100.8 million (2022: £95.1 million). The increase of £5.7 million is primarily due to the building of a new Home platform and development of new capabilities for the Group's Motor platform. The assets still under development at 31 December 2023 relate mainly to finance and core technology projects which are expected to be ready for use in 2024. These assets are tested for impairment during the Group's annual impairment review at each reporting date.

Other intangible assets relate mainly to internally generated software. For year ended 31 December 2023, other intangible assets additions, which are internally generated, are £122.8 million (2022: £106.1 million).

## 15. Goodwill and other intangible assets continued

Goodwill arose on the acquisition of U K Insurance Limited (£141.0 million), Churchill Insurance Company Limited (£70.0 million) and accident repair networks (£4.0 million) and is allocated to reportable segments. The addition to goodwill in the year ended 31 December 2023 of £3.6 million arose from the purchase of By Miles Group Limited ("By Miles") and the purchase of the business and assets of a vehicle repair centre to further expand the Group's wholly owned DLG Auto Services network. The acquisitions are further detailed in note 38.

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. The units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the reportable segments (Note 4).

The Group's testing for impairment of goodwill and intangible assets includes the comparison of the recoverable amount of each CGU to which goodwill and other intangible assets have been allocated with its carrying value and is updated annually for goodwill, at each reporting date for other intangibles, and whenever there are indications of impairment.
A segment-level summary of the goodwill allocation is presented below:

| | **2023**<br>**£m** | 2022<br>£m |
|---|---|---|
| Motor | **134.0** | 130.4 |
| Home | **45.8** | 45.8 |
| Rescue and other personal lines | **28.7** | 28.7 |
| Commercial | **–** | 10.1 |
| **Total** | **208.5** | 215.0 |

There is no goodwill impairment for the year ended 31 December 2023 (2022: £nil).

Goodwill is tested for impairment by comparing the carrying value of the CGU to which the goodwill relates to the recoverable value of that CGU. The recoverable amount is the value in use of the CGU unless otherwise stated.

Value in use is calculated as the discounted value of expected future profits of each business, using the Group's strategic plan covering a five year period. The long-term growth rates have been based on gross domestic product rates adjusted for inflation. The risk discount rates incorporate observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

Key assumptions used in the value in use calculation are presented below:

| | Assumptions 2023 | | Assumptions 2022 | |
|---|---|---|---|---|
| **Segment** | Terminal growth rate<br>% | Pre-tax discount rate<br>% | Terminal growth rate<br>% | Pre-tax discount rate<br>% |
| Motor | 1.5 | 11.3 | 1.5 | 11.4 |
| Home | 1.5 | 11.3 | 1.5 | 11.4 |
| Rescue and other personal lines | 1.5 | 11.3 | 1.5 | 11.4 |
| Commercial | – | – | 1.5 | 11.4 |

Management considers that no reasonably possible changes to the key assumptions would reduce a CGU's headroom to £nil.

Sensitivity information on the key assumptions have been presented below, as management consider it to be helpful for users:

| | | Change to key assumptions needed to reduce headroom to nil | | |
|---|---|---|---|---|
| **Segment** | Headroom under key assumptions<br>£m | Reduction to future profits in the Groups strategic plan[2]<br>% | Reduction in terminal growth rate<br>% (abs) | Increase in pre-tax discount rate<br>% (abs) |
| Motor | 1,333.0 | 41.5 | 12.2 | 6.2 |
| Home | 307.8 | 58.8 | 35.1 | 12.0 |
| Rescue and other personal lines | 508.6 | 83.6 | n/a[1] | 34.1 |

1. No change in this metric could reduce the headroom to nil.
2. In the equivalent disclosure included within the 2022 annual report and accounts, the 'discount in forecast pre-tax profits' sensitivity metric incorrectly referenced a 1% movement, rather than the 10% sensitivity scenario reflected in the figures in the table.

## 16. Property, plant and equipment

| | Land and buildings £m | Other equipment £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | 56.7 | 185.3 | 242.0 |
| Additions | – | 11.7 | 11.7 |
| Disposals | – | (7.0) | (7.0) |
| Assets held for sale | (19.8) | (15.8) | (35.6) |
| **At 31 December 2022** | 36.9 | 174.2 | 211.1 |
| Acquisition of subsidiary | **–** | **2.7** | **2.7** |
| Additions | **–** | **18.9** | **18.9** |
| Disposals | **–** | **(8.8)** | **(8.8)** |
| **At 31 December 2023** | **36.9** | **187.0** | **223.9** |
| **Accumulated depreciation and impairment** | | | |
| **At 1 January 2022** | 4.4 | 123.8 | 128.2 |
| Depreciation charge for the year | 0.8 | 11.6 | 12.4 |
| Disposals | – | (5.5) | (5.5) |
| Assets held for sale | (0.6) | (7.1) | (7.7) |
| **At 31 December 2022** | 4.6 | 122.8 | 127.4 |
| Depreciation charge for the year | **0.5** | **10.5** | **11.0** |
| Disposals | **–** | **(6.1)** | **(6.1)** |
| **At 31 December 2023** | **5.1** | **127.2** | **132.3** |

| | | | |
|---|---|---|---|
| **Carrying amount** | | | |
| **At 31 December 2023** | **31.8** | **59.8** | **91.6** |
| **At 31 December 2022** | 32.3 | 51.4 | 83.7 |

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

## 17. Right-of-use assets

| | Property £m | Motor vehicles £m | IT equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January 2022** | 116.6 | 10.9 | 1.2 | 128.7 |
| Additions | 4.4 | 2.4 | – | 6.8 |
| Disposals | – | (3.7) | (1.2) | (4.9) |
| **At 31 December 2022** | 121.0 | 9.6 | – | 130.6 |
| Additions | **30.9** | **5.5** | **–** | **36.4** |
| Disposals | **(6.9)** | **(5.0)** | **–** | **(11.9)** |
| **At 31 December 2023** | **145.0** | **10.1** | **–** | **155.1** |
| **Accumulated depreciation and impairment** | | | | |
| **At 1 January 2022** | 44.2 | 7.4 | 1.0 | 52.6 |
| Depreciation charge for the year | 7.1 | 2.6 | 0.2 | 9.9 |
| Disposals | – | (3.7) | (1.2) | (4.9) |
| **At 31 December 2022** | 51.3 | 6.3 | – | 57.6 |
| Depreciation charge for the year | **9.1** | **2.8** | **–** | **11.9** |
| Disposals | **(5.8)** | **(4.7)** | **–** | **(10.5)** |
| **At 31 December 2023** | **54.6** | **4.4** | **–** | **59.0** |

| | | | | |
|---|---|---|---|---|
| **Carrying amount** | | | | |
| **At 31 December 2023** | **90.4** | **5.7** | **–** | **96.1** |
| **At 31 December 2022** | 69.7 | 3.3 | – | 73.0 |

The average contract duration at inception for Property is 20 years, and for Motor vehicles is three years. The maturity analysis of lease liabilities is presented in note 36.

## 18. Investment property

| | Retail £m | Retail warehouse £m | Supermarkets £m | Industrials £m | Hotels £m | Alternative sector £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | 26.6 | 22.7 | 56.9 | 134.2 | 58.4 | 18.2 | 317.0 |
| Capitalised expenditure | 0.3 | 0.2 | — | 0.1 | — | — | 0.6 |
| Fair value adjustments | (1.6) | (1.6) | (5.8) | (22.3) | (8.1) | 0.3 | (39.1) |
| **At 31 December 2022[1]** | **25.3** | **21.3** | **51.1** | **112.0** | **50.3** | **18.5** | **278.5** |
| Capitalised expenditure | **0.1** | **–** | **–** | **0.4** | **–** | **–** | **0.5** |
| Fair value adjustments | **(1.0)** | **(0.5)** | **(4.0)** | **3.3** | **0.2** | **0.1** | **(1.9)** |
| **At 31 December 2023[1]** | **24.4** | **20.8** | **47.1** | **115.7** | **50.5** | **18.6** | **277.1** |

**Note:**
1. The cost included in the carrying value at 31 December 2023 is £217.0 million (2022: £216.4 million).

The investment properties are measured at fair value derived from valuation work carried out at the statement of financial position date by independent property valuers. The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2022.

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

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

| **2023** | | -50bp | -5bp | Baseline as at 31 December 2023 | +5bp | +50bp |
|---|---|---|---|---|---|---|
| Equivalent yield | **%** | **5.31** | **5.81** | **5.87** | **5.92** | **6.42** |
| Value | **£m** | **253.5** | **274.6** | **277.1** | **279.8** | **305.7** |

| 2022 | | -50bp | -5bp | Baseline as at 31 December 2022 | +5bp | +50bp |
|---|---|---|---|---|---|---|
| Equivalent yield | % | 4.98 | 5.47 | 5.53 | 5.58 | 6.07 |
| Value | £m | 253.5 | 275.4 | 278.5 | 280.9 | 308.1 |

## 19. Subsidiaries

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

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

The Group acquired four subsidiary entities in 2023. These were: By Miles Group Limited, By Miles Limited, By Miles Payment Services Limited and By Miles Technology Services Limited. It did not dispose of any subsidiaries in the year ended 31 December 2023 (31 December 2022: 10-15 Livery Street was dissolved on 29 December 2022).

## 20. Insurance contract assets and liabilities - gross and reinsurance

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

### 20.1 Insurance and reinsurance contract assets and liabilities by segment

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

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

## 20. Insurance contract assets and liabilities - gross and reinsurance continued

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

**Note:**
1. Ongoing operations and run-off partnerships – See glossary on pages 261 to 263 for definitions and appendix A – Alternative performance measures on pages 265 to 268 for reconciliation to financial statement line items.

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

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

**Note:**

1- The amounts recognised in Insurance service result for the year of £2,941.2 million (2022: £2,317.3 million) does not include other directly attributable expenses of £907.9 million (2022: £871.0 million) and other directly attributable claims income of £42.8 million (2022: £42.8 million) as these are not recognised within liabilities for incurred claims. Please see note 5.

## 20. Insurance contract assets and liabilities - gross and reinsurance continued

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

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

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

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

**Note:**

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

## 20. Insurance contract assets and liabilities - gross and reinsurance continued

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

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

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

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

**Note:**

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

## 20. Insurance contract assets and liabilities - gross and reinsurance continued

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

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

## 20.5 Insurance and reinsurance contract assets and liabilities - claims development tables

### Gross insurance liabilities

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

### Net insurance contract liabilities

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

## 20. Insurance contract assets and liabilities - gross and reinsurance continued

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

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

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

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

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

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

## 21. Prepayments, accrued income and other assets

| | 2023 £m | 2022 £m restated[1] |
|---|---|---|
| Prepayments | **73.8** | 83.5 |
| Accrued income from contracts with customers and other assets | **27.7** | 21.4 |
| **Total** | **101.5** | 104.9 |

**Note:**

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

## 22. Derivative financial instruments

| | 2023 £m | 2022 £m |
|---|---|---|
| **Derivative assets** | | |
| **At fair value through profit or loss:** | | |
| Foreign exchange contracts (forwards) | **27.1** | 24.2 |
| Interest rate swaps | **0.3** | 7.0 |
| **Designated as hedging instruments:** | | |
| Foreign exchange contracts (forwards)[1] | **–** | 0.1 |
| **Total** | **27.4** | 31.3 |
| **Derivative liabilities** | | |
| **At fair value through profit or loss:** | | |
| Foreign exchange contracts (forwards) | **8.2** | 28.4 |
| Interest rate swaps | **6.9** | 1.2 |
| **Designated as hedging instruments:** | | |
| Foreign exchange contracts (forwards)[1] | **0.3** | – |
| **Total** | **15.4** | 29.6 |

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

## 23. Retirement benefit obligations

### Defined contribution scheme

The pension charge in respect of the defined contribution scheme for the year ended 31 December 2023 was £28.7 million (2022: £26.5 million).

### Defined benefit scheme

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

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

The weighted average duration of the defined benefit obligations at 31 December 2023 is 16 years (2022: 17 years) using accounting assumptions.

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

| | 2023 % | 2022 % |
|---|---|---|
| Rate of increase in pension payment | **2.5** | 2.5 |
| Rate of increase in deferred pensions | **2.5** | 2.6 |
| Discount rate | **4.5** | 4.8 |
| Inflation rate | **3.1** | 3.3 |

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

### Post-retirement mortality assumptions

| | 2023 | 2022 |
|---|---|---|
| Life expectancy at age 60 now: | | |
| Males | **87.0** | 87.2 |
| Females | **89.0** | 89.2 |
| Life expectancy at age 60 in 20 years' time: | | |
| Males | **88.9** | 89.2 |
| Females | **90.8** | 91.0 |

## 23. Retirement benefit obligations

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Insurance policies[1] | **51.8** | 48.8 |
| Index-linked bonds | **0.5** | 0.3 |
| Government bonds | **0.3** | 0.5 |
| Liquidity fund[2] | **–** | 0.1 |
| Defined contribution section funds[3] | **1.4** | 1.7 |
| Other | **1.7** | 2.0 |
| **Total** | **55.7** | 53.4 |

**Notes:**
1. Insurance policies are valued at the present value of the related obligations.
2. The liquidity fund is an investment in an open-ended fund incorporated in the Republic of Ireland which targeted capital stability and income in the UK. It is invested in short-term fixed income and variable rate securities (such as treasury bills) listed or traded on one or more recognised exchanges.
3. The defined contribution section funds relate to members in that section who have a defined benefit underpin that exceeds the value of the defined contribution funds. The investments are largely in a diversified growth fund. The corresponding liability is included in the defined benefit scheme obligation (see the movement in net pension surplus table on page 236).

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

### Movement in net pension surplus

| | Fair value of defined benefit scheme assets £m | Present value of defined benefit scheme obligations £m | Net pension surplus £m |
|---|---|---|---|
| **At 1 January 2022** | 108.2 | (96.1) | 12.1 |
| Statement of profit or loss: | | | |
| Net interest income/(cost)[1] | 2.1 | (1.9) | 0.2 |
| Administration costs | (0.9) | – | (0.9) |
| Statement of comprehensive income: | | | |
| Remeasurement losses | | | |
| Return on plan assets excluding amounts included in the net interest on the defined benefit asset | (53.3) | – | (53.3) |
| Actuarial gains on defined benefit scheme | | | |
| Experience gains | – | 0.3 | 0.3 |
| Gains from change in demographic assumptions | – | 0.5 | 0.5 |
| Gains from change in financial assumptions | – | 42.7 | 42.7 |
| Benefits paid | (2.7) | 2.7 | – |
| **At 31 December 2022** | 53.4 | (51.8) | 1.6 |
| Statement of profit or loss: | | | |
| Net interest income/(cost)[1] | **2.5** | **(2.4)** | **0.1** |
| Administration costs | **(0.5)** | **–** | **(0.5)** |
| Statement of comprehensive income: | | | |
| Remeasurement gains | | | |
| Return on plan assets excluding amounts included in the net interest on the defined benefit asset | **2.7** | **–** | **2.7** |
| Actuarial losses on defined benefit scheme | | | |
| Experience losses | **–** | **(1.3)** | **(1.3)** |
| Gains from change in demographic assumptions | **–** | **0.4** | **0.4** |
| Losses from change in financial assumptions | **–** | **(1.7)** | **(1.7)** |
| Benefits paid | **(2.4)** | **2.4** | **–** |
| **At 31 December 2023** | **55.7** | **(54.4)** | **1.3** |

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

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

| | 2023 £m | 2022 £m | 2021 £m | 2020 £m | 2019 £m |
|---|---|---|---|---|---|
| Present value of defined benefit scheme obligations | **(54.4)** | (51.8) | (96.1) | (98.7) | (90.3) |
| Fair value of defined benefit scheme assets | **55.7** | 53.4 | 108.2 | 107.7 | 100.0 |
| **Net pension surplus** | **1.3** | 1.6 | 12.1 | 9.0 | 9.7 |
| Experience (losses)/gains on scheme liabilities | **(1.3)** | 0.3 | (5.8) | 2.4 | 0.4 |
| Return on plan assets excluding amounts included in the net interest on the defined benefit asset | **2.7** | (53.3) | 2.2 | 9.0 | 4.4 |

## Sensitivity analysis

The sensitivity analysis has been calculated by valuing the pension scheme liabilities using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed in the table above, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. The pension cost has been determined allowing for the estimated impact on the scheme's assets. Following the purchase of the insurance policy to cover the benefits of the defined benefit section members, the scheme's asset and liabilities move by the same amount in respect of these members, hence has no impact on pension cost. The selection of these movements to illustrate the sensitivity of the defined benefit obligation to key assumptions should be viewed as illustrative, rather than providing a view on the likely size of any change.

| | Impact on present value of defined benefit scheme obligations | |
|---|---|---|
| | **2023 £m** | 2022 £m |
| **Discount rate** | | |
| 1.0% increase in discount rate (2022: 1.0% increase in discount rate) | **(7.4)** | (7.3) |
| 1.0% decrease in discount rate (2022: 1.0% decrease in discount rate) | **8.7** | 8.7 |
| **Inflation rate** | | |
| 1.0% increase in inflation rate (2022: 1.0% increase in inflation rate) | **2.7** | 2.8 |
| 1.0% decrease in inflation rate (2022: 1.0% decrease in inflation rate) | **(2.7)** | (2.6) |
| **Life expectancy** | | |
| 1-year increase in life expectancy | **2.4** | 2.6 |
| 1-year decrease in life expectancy | **(2.4)** | (2.6) |

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

At the date of signing these financial statements, no contributions are expected to be payable in 2024 (2023: £nil).

## 24. Financial investments

| | 2023 £m | 2022 £m restated[1] |
|---|---|---|
| **Debt securities measured at fair value through the profit or loss** | | |
| Corporate | **2,530.8** | 2,605.1 |
| Supranational | **25.6** | 25.2 |
| Local government | **0.9** | 5.9 |
| Sovereign | **680.8** | 511.3 |
| **Total** | **3,238.1** | 3,147.5 |
| **Debt securities measured at amortised cost** | | |
| Corporate | **70.6** | 97.2 |
| **Total** | **70.6** | 97.2 |
| **Total debt securities** | **3,308.7** | 3,244.7 |
| Of which: | | |
| Fixed interest rate[2] | **3,307.5** | 3,231.1 |
| Floating interest rate | **1.2** | 13.6 |
| **Loans and receivables measured at amortised cost** | | |
| Infrastructure debt | **214.2** | 236.8 |
| Commercial real estate loans | **145.9** | 198.9 |
| Other loans | **3.1** | 1.6 |
| **Total loans and receivables** | **363.2** | 437.3 |
| Unquoted equity investments measured at fair value through other comprehensive income[3,4] | **18.9** | 13.3 |
| Unquoted equity investments measured at fair value through the profit or loss[3] | **0.7** | 0.8 |
| Quoted equity investments measured at fair value through the profit or loss[3] | **0.1** | 0.3 |
| **Total** | **3,691.6** | 3,696.4 |

**Notes:**
1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. The Group swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2023 was £419.4 million (2022: £401.8 million).
3. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.
4. On initial recognition the Group made an irrevocable election to classify some equity investments as FVOCI given the instruments are strategic in nature, and are not held for trading.

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

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

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

The following table shows the Group's updated expected credit loss allowances for financial investments measured at amortised cost should there be a three-notch downgrade. This reflects an immediate downgrade on the issuers current credit ratings. The key driver of such a scenario could be a change in the economic outlook which could impact the portfolio as a whole, or a response to an unexpected negative event, for a specific company or industry.

| | **ECL 2023 £m** | **3 notch immediate downgrade 2023 £m** | ECL 2022 £m | 3 notch immediate downgrade 2022 £m |
|---|---|---|---|---|
| Infrastructure debt | (16.6) | (19.2) | (17.0) | (20.6) |
| Commercial real estate loans | (7.7) | (10.5) | (6.5) | (10.2) |
| Debt securities held at amortised cost | (0.8) | (2.7) | (1.0) | (3.6) |
| Other loans | (0.4) | (0.4) | (0.3) | (0.3) |
| **Total** | **(25.5)** | **(32.8)** | **(24.8)** | **(34.7)** |

## 25. Cash and cash equivalents and borrowings

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

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

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

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

## 26. Assets held for sale

| | **2023 £m** | 2022 £m |
|---|---|---|
| Property, plant and equipment | **13.9** | 37.0 |
| Investment property | **–** | 3.9 |
| **Total assets held for sale** | **13.9** | 40.9 |

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

Assets held for sale at 31 December 2023 relate to an office site in Leeds (including retail space within the property) that is no longer required. At 31 December 2022, assets held for sale also included an office site and retail space in Bromley and an office site in Ipswich that were subsequently sold during 2023.

A net impairment loss of £5.1 million (2022: £8.9 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of these properties to their held for sale values.

## 27. Share capital

| Issued and fully paid: equity shares | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Share capital** | **Transfer to capital redemption reserve[3]** | Number of shares | Share capital | Transfer to capital redemption reserve[3] |
| Ordinary Shares of 10 $^{10}/_{11}$ pence each[1] | **millions** | **£m** | **£m** | millions | £m | £m |
| **At 1 January** | **1,311.4** | **143.1** | **6.9** | 1,330.7 | 145.2 | 4.8 |
| Shares cancelled following buyback[2] | **–** | **–** | **–** | (19.3) | (2.1) | 2.1 |
| **At 31 December** | **1,311.4** | **143.1** | **6.9** | 1,311.4 | 143.1 | 6.9 |

**Notes:**
1. The shares have full voting, dividend and capital distribution rights (including on wind-up) attached to them; these do not confer any rights of redemption.
2. During 2022, the Group repurchased 19,324,855 Ordinary Shares for an aggregate consideration of £50.1 million.
3. Shares bought back were subsequently cancelled giving rise to a capital redemption reserve of an equivalent amount to their nominal value as required by the Companies Act 2006.

Additional information including the number of shares authorised for issue is available in the Directors' Report which starts on page 158.

### Employee trust shares

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

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

## 28. Other reserves

### Capital reserves

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| Capital contribution reserve[1] | **100.0** | 100.0 |
| Capital redemption reserve[2] | **1,356.9** | 1,356.9 |
| **Total** | **1,456.9** | 1,456.9 |

**Notes:**
1. Arose on the cancellation of a debt payable to a shareholder.
2. £1,350.0 million arose on the reduction of nominal value of each share in issue with a corresponding transfer to capital redemption reserve. No further additions were made in 2023, (2022: additions of £2.1 million when shares repurchased through buyback were cancelled).

## 29. Tier 1 notes

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

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

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

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

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

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

## 30. Subordinated liabilities

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

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

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

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

## 31. Share-based payments

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

### Long-Term Incentive Plan

Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards granted in the form of nil-cost options. Under the plan, the shares vest at the end of a three-year period dependent upon continued employment by the Group and also the Group achieving predefined performance conditions associated with total shareholder return ("**TSR**"), return on tangible equity ("**RoTE**"), from 2022 emissions and from 2023 operating earnings per share ("**Operating EPS**"). The Executive Directors are subject to an additional two-year holding period following the three-year vesting period.

An award was made in the year ended 31 December 2023 of 8.0 million Ordinary Shares with an estimated fair value of £10.9 million at the 2023 grant date (2022: 4.5 million Ordinary Shares with an estimated fair value of £10.7 million).

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

The table below details the inputs into the model:

| | **2023** | 2022 |
|---|---|---|
| Weighted average assumptions during the year: | | |
| Share price (pence) | **139** | 243 |
| Exercise price (pence) | **0** | 0 |
| Volatility of share price | **32%** | 29% |
| Average comparator volatility | **35%** | 41% |
| Expected life | **3 years** | 3 years |
| Risk-free rate | **3.54 %** | 2.09% |

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

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

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

### Restricted Shares Plan

The purpose of the Restricted Shares Plan is to facilitate the wider participation in Group share-based awards of eligible employees. These awards can be granted in the form of a nil-cost option at any time during the year, generally have no performance criteria, and vest over periods ranging up to seven years from the date of the grant, subject to continued employment. During the year awards were made of 7.8 million Ordinary Shares (2022: 1.0 million Ordinary Shares) with an estimated fair value of £11.6 million (2022: £2.6 million) using the market value at the date of grant.

### Deferred Annual Incentive Plan

To incentivise delivery of performance over a one-year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the Annual Incentive Plan ("**AIP**"), of which at least 40% is granted in the form of a nil-cost option under the DAIP with the remainder being settled in cash following year end. During the year no awards were made (2022: 1.6 million Ordinary Shares). The 2022 award had a fair value of £4.2 million using the market value at the date of grant.

The awards outstanding at 31 December 2023 have no performance criteria attached; there is a requirement that the employee remains in employment with the Group for three years from the date of grant.

### Direct Line Group Share Incentive Plans: Free Share awards

No free share awards have been granted to eligible employees since 2021.

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

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

In the year ended 31 December 2023, matching share awards were granted of 1.0 million Ordinary Shares (2022: 0.7 million Ordinary Shares) with an estimated fair value of £1.7 million (2022: £1.7 million). The fair value of each matching share award is estimated using the market value at the date of grant.

## 31. Share-based payments continued

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

### Movement in total share awards

| | Number of share awards 2023 millions | 2022 millions |
|---|---|---|
| **At 1 January** | **28.7** | 28.4 |
| Granted during the year[1] | **16.8** | 9.8 |
| Forfeited during the year | **(8.1)** | (4.3) |
| Exercised during the year | **(3.4)** | (5.2) |
| **At 31 December** | **34.0** | 28.7 |
| **Exercisable at 31 December** | **3.8** | 2.2 |

**Note:**

1. In accordance with the rules of the LTIP, Restricted Shares Plan and DAIP, additional awards of 3.3 million shares were granted during the year ended 31 December 2023 (2022: 2.0 million) in respect of the equivalent dividend.

In respect of the outstanding options at 31 December 2023, the weighted average remaining contractual life is 1.50 years (2022: 1.56 years). No share awards expired during the year (2022: nil).

The weighted average share price for awards exercised during the year ended 31 December 2023 was £1.63 (2022: £2.41).

The Group recognised total expenses in the year ended 31 December 2023 of £13.9 million (2022: £8.2 million) relating to equity-settled share-based compensation plans.

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

## 32. Provisions

### Movement in provisions during the year

| | Restructuring £m | Other[2] £m | Total £m |
|---|---|---|---|
| **At 1 January 2023 (restated)[1]** | **8.7** | **1.5** | **10.2** |
| Additional provision | **29.7** | **0.3** | **30.0** |
| Utilisation of provision | **(7.0)** | **–** | **(7.0)** |
| Released to the statement of profit or loss | **(1.9)** | **(0.5)** | **(2.4)** |
| **At 31 December 2023** | **29.5** | **1.3** | **30.8** |

**Notes:**

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.
2. Other includes a number of individually immaterial provisions.

Of the above, no amount is due to be settled outside of 12 months (2022: £Nil).

Restructuring includes a number of restructuring programmes within the Group, including office site closures and staff restructuring along with an impairment charge. There are no material uncertainties in timings, amounts or assumptions used.

## 33. Trade and other payables

| | 2023 £m | 2022 £m restated[1] |
|---|---|---|
| Accruals | **141.6** | 132.4 |
| Trade creditors | **2.2** | 2.2 |
| Other taxes | **12.3** | 7.9 |
| Other creditors | **1.1** | 1.2 |
| Deferred income | **6.4** | 3.3 |
| **Total** | **163.6** | 147.0 |

**Note:**

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

## 34. Notes to the consolidated cash flow statement

| | Notes | 2023 £m | 2022 £m restated[1] |
|---|---|---|---|
| **Profit/(loss) for the year** | | **222.9** | (231.9) |
| Adjustments for: | | | |
| Net Investment return excluding investment fees | 6 | **(312.3)** | 217.6 |
| Finance costs | 8 | **14.5** | 20.4 |
| Net defined benefit pension scheme expense | 23 | **0.4** | 0.7 |
| Equity-settled share-based payment charge | | **13.9** | 8.2 |
| Tax charge/(credit) | 10 | **54.5** | (69.9) |
| Depreciation and amortisation charge | | **123.5** | 115.0 |
| Impairment of intangible assets | 15 | **5.4** | 16.0 |
| Impairment provision movements on non-performance reinsurance contracts | | **52.4** | 37.4 |
| Impairment on assets held for sale | 26 | **5.1** | 8.9 |
| Loss on disposal of property, plant and equipment and ROU assets | | **4.1** | 1.5 |
| Transaction costs paid on disposal of business | | **(25.1)** | — |
| Profit on disposal of business | 9 | **(443.9)** | — |
| **Operating cash flows before movements in working capital** | | **(284.6)** | 123.9 |
| Movements in working capital: | | | |
| Net (increase)/decrease in reinsurance contract assets | | **(323.5)** | 69.3 |
| Net (increase)/decrease in insurance contract assets | | **11.9** | (17.4) |
| Net increase/(decrease) in reinsurance contract liabilities | | **102.7** | 10.3 |
| Net decrease in other receivables | | **(0.6)** | (6.2) |
| Net decrease in accrued income and other assets | | **3.2** | 19.3 |
| Net increase/(decrease) in trade and other payables | | **9.9** | (23.1) |
| Net increase/(decrease) in insurance contract liabilities | | **613.0** | (99.8) |
| **Cash generated from operations** | | **132.0** | 76.3 |
| Taxes paid | | **(30.9)** | (44.5) |
| Cash flow hedges | | **(0.6)** | 0.3 |
| **Net cash generated from operating activities before investment of insurance assets** | | **100.5** | 32.1 |
| | | | |
| Interest received | | **176.7** | 133.0 |
| Rental income received from investment property | 6 | **16.1** | 15.6 |
| Purchase of investment property | 18 | **(0.6)** | (0.6) |
| Proceeds on disposal/maturity of financial investments measured through profit or loss | | **1,062.4** | 1,696.2 |
| Proceeds from maturity of debt securities measured at amortised cost | | **26.5** | — |
| Advances made for commercial real estate loans | | **(5.4)** | (40.8) |
| Repayments of infrastructure debt and commercial real estate loans | | **81.8** | 57.2 |
| Purchases of debt securities measured at amortised cost | | **—** | (7.0) |
| Purchase of equity investments | | **(3.0)** | (7.7) |
| Purchase of financial investments measured at fair value through profit or loss | | **(1,049.0)** | (1,075.9) |
| Advances for other loans | | **(1.1)** | (1.9) |
| **Cash generated from investment of insurance assets** | | **304.4** | 768.1 |

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

## 34. Notes to the consolidated cash flow statement continued

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

| | Leases | | Subordinated liabilities | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£m** | £m | **£m** | £m |
| **At 1 January** | **81.6** | 84.2 | **258.6** | 513.6 |
| Repayment of subordinated liabilities[1] | **–** | – | **–** | (250.0) |
| Interest paid on subordinated liabilities | **–** | – | **(10.4)** | (22.0) |
| Lease repayments | **(14.6)** | (12.0) | **–** | – |
| **Financing cash flows** | **(14.6)** | (12.0) | **(10.4)** | (272.0) |
| Additions from acquisition of business | **0.8** | – | **–** | – |
| Additions/disposals of leases | **34.5** | 6.3 | **–** | – |
| Interest on lease liabilities | **3.8** | 3.1 | **–** | – |
| Amortisation of arrangement costs and discount on issue of subordinated liabilities | **–** | – | **0.2** | 0.3 |
| Amortisation of fair value hedging | **–** | – | **–** | (1.1) |
| Accrued interest expense on subordinated liabilities | **–** | – | **10.4** | 17.8 |
| **Other changes** | **39.1** | 9.4 | **10.6** | 17.0 |
| **At 31 December** | **106.1** | 81.6 | **258.8** | 258.6 |

**Note:**
1. As described in note 30, the Group repaid in full the £250 million 9.25% subordinated Tier 2 notes due 2042 on 27 April 2022 when it had its first option to repay. The interest rate swap hedging these notes expired on the same date. Associated transaction costs were £0.1 million.

## 35. Commitments and contingent liabilities

The Group did not have any material commitments and contingent liabilities at 31 December 2023 (2022: none).

## 36. Leases

### Operating lease commitments where the Group is the lessor

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

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| Within one year | **14.8** | 13.8 |
| Between 1 and 2 years | **13.8** | 12.6 |
| Between 2 and 3 years | **12.9** | 11.1 |
| Between 3 and 4 years | **11.0** | 10.4 |
| Between 4 and 5 years | **9.1** | 8.8 |
| Later than 5 years | **66.8** | 59.8 |
| **Total[1,2]** | **128.4** | 116.5 |

**Notes:**
1. In the table above, the amounts disclosed for year ended 31 December 2023 exclude total future aggregate minimum lease payments receivable of £0.1 million which relate to leases to third-party tenants on properties the Group has classified as assets held for sale.
2. At year ended 31 December 2023: £126.5 million of the total operating lease commitments where the Group is the lessor relates to the lease of investment properties detailed in note 18 (2022: £114.2 million).

The investment properties held by the Group consist of 18 in total, all based in the UK with exposure predominantly to the South of England operating in the following sectors; retail, retail warehouse, supermarkets, industrial, hotels and alternative sectors.

The investment properties are leased to tenants under operating leases with rental income for the majority paid a quarter in advance with an average unexpired lease to expiry (including break clauses and tenants currently in rent free periods) of 9.8 years (2022: 10.5 years). 49% (2022: 49%) of rental income is RPI/index linked.

Where considered necessary to reduce credit risk, the Group may obtain guarantees from parent companies for the term of the lease.

## Other lease disclosures

At 31 December 2023 the Group had no commitments to property leases not yet commenced (2022: total future cash outflows of £29.0 million).

The following table analyses the amounts that have been included in the consolidated statement of profit or loss for leases:

| | 31 Dec 2023 £m | 31 Dec 2022 £m |
|---|---|---|
| Depreciation of ROU assets | 11.9 | 9.9 |
| Gain on modification of leases | — | — |
| Loss/(gain) on disposal of leases | 1.4 | (0.5) |
| Interest on lease liabilities | 3.8 | 3.1 |
| Short-term leases[2] | 2.2 | 1.6 |
| Low-value leases[2] | 1.4 | 1.4 |
| Impairment on ROU assets | — | — |
| Income from subleasing ROU assets | — | — |
| **Total** | **20.7** | 15.5 |

**Notes:**

1. Total cash outflows in respect of leases was £18.2 million (2022: £15.0 million) which includes amounts expensed for short-term leases and leases of low-value assets.
2. At years ended 31 December 2023 and 31 December 2022, expenses relating to short-term leases and leases of low-value assets were not included in the measurement of lease liabilities as they were not considered significant.

## Lease commitments where the Group is the lessee

Lease liabilities total £106.1 million (2022: £81.6 million). Future contractual aggregate minimum lease payments are as follows:

| | 2023 £m | 2022 £m |
|---|---|---|
| Within one year | 12.7 | 10.9 |
| In the second to fifth year inclusive | 45.3 | 31.9 |
| After five years | 78.7 | 60.0 |
| **Sub total** | **136.7** | **102.8** |
| Less effect of discounting and unearned interest | (30.6) | (21.2) |
| **Total** | **106.1** | **81.6** |

The Group 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.

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

## 37. Fair value

### Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. There were no changes in valuation techniques during the year.

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

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

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

| At 31 December 2023 | Carrying value £m | Level 1 £m | Level 2 £m | Level 3 £m | Fair value £m |
|---|---|---|---|---|---|
| **Assets held at fair value through profit or loss:** | | | | | |
| Investment property | **277.1** | – | – | 277.1 | **277.1** |
| Derivative assets | **27.4** | – | 27.4 | – | **27.4** |
| Debt securities | **3,238.1** | 680.8 | 2,555.8 | 1.5 | **3,238.1** |
| Listed equity investments | **0.1** | – | 0.1 | – | **0.1** |
| Unlisted equity investments | **0.7** | – | – | 0.7 | **0.7** |
| **Assets held at fair value through other comprehensive income:** | | | | | |
| Equity investments | **18.9** | – | – | 18.9 | **18.9** |
| **Assets held at amortised cost:** | | | | | |
| Debt securities | **70.6** | – | 16.2 | 49.4 | **65.6** |
| Infrastructure debt | **214.2** | – | – | 213.9 | **213.9** |
| Commercial real estate loans | **145.9** | – | – | 145.4 | **145.4** |
| Other loans | **3.1** | – | – | 3.1 | **3.1** |
| **Total** | **3,996.1** | **680.8** | **2,599.5** | **710.0** | **3,990.3** |
| **Liabilities held at fair value through profit or loss:** | | | | | |
| Derivative liabilities | **15.4** | – | 15.4 | – | **15.4** |
| **Other financial liabilities:** | | | | | |
| Subordinated liabilities | **258.8** | – | 212.8 | – | **212.8** |
| **Total** | **274.2** | **–** | **228.2** | **–** | **228.2** |

| At 31 December 2022 (restated[1]) | Carrying value £m | Level 1 £m | Level 2 £m | Level 3 £m | Fair value £m |
|---|---|---|---|---|---|
| **Assets held at fair value through profit or loss:** | | | | | |
| Investment property | **278.5** | — | — | 278.5 | **278.5** |
| Derivative assets | **31.3** | — | 31.3 | — | **31.3** |
| Debt securities | **3,147.5** | 511.3 | 2,636.2 | — | **3,147.5** |
| Listed equity investments | **0.3** | — | 0.3 | — | **0.3** |
| Unlisted equity investments | **0.8** | — | — | 0.8 | **0.8** |
| **Assets held at fair value through other comprehensive income:** | | | | | |
| Equity investments | **13.3** | — | — | 13.3 | **13.3** |
| **Assets held at amortised cost:** | | | | | |
| Debt securities | **97.2** | — | 28.6 | 61.0 | **89.6** |
| Infrastructure debt | **236.8** | — | — | 235.7 | **235.7** |
| Commercial real estate loans | **198.9** | — | — | 198.1 | **198.1** |
| Other loans | **1.6** | — | — | 1.9 | **1.9** |
| **Total** | **4,006.2** | **511.3** | **2,696.4** | **789.3** | **3,997.0** |
| **Liabilities held at fair value through profit or loss:** | | | | | |
| Derivative liabilities | **29.6** | — | 29.6 | — | **29.6** |
| **Other financial liabilities:** | | | | | |
| Subordinated liabilities | **258.6** | — | 204.9 | — | **204.9** |
| **Total** | **288.2** | **—** | **234.5** | **—** | **234.5** |

**Note:**
1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

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

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

The movements in assets held at fair value and classified as level 3 in the fair value hierarchy relate to investment property and unquoted equity investments. Investment property is analysed in note 18 along with further details on the Group's valuation approach. A summary of realised and unrealised gains or losses in relation to investment property at fair value are presented in note 6.

There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Group since 31 December 2022.

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

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

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

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

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

**Note:**
1. Opening balances have been restated on transition to IFRS 9 'Financial Instruments'. See notes 1 and 40 for further details.

## 38. Acquisitions

### By Miles Group Limited

On 24 April 2023 the Group acquired 100% of the share capital of By Miles Group Limited (**"By Miles"**) for a nominal consideration. Details of the business combination are as follows:

| | 21 April 2023 £m |
|---|---|
| Amount settled in cash | – |
| Recognised amounts of identifiable net assets: | |
| Intangible assets | 0.6 |
| Property, plant and equipment | 1.9 |
| Cash and cash equivalents | 1.1 |
| Trade and other receivables | 0.5 |
| Trade and other payables | (1.6) |
| Borrowings | (5.2) |
| **Net identifiable assets and liabilities** | **(2.7)** |
| **Goodwill** | **2.7** |

By Miles is a Managing General Agent and provider of real-time pay-by-mile insurance policies. The amount settled in cash was £1. Acquisition-related expenses of £0.4 million have been recognised in the consolidated statement of profit or loss.

Goodwill recognised on the acquisition relates to expected growth, synergies and the value of the By Miles proposition which cannot be separately recognised as an intangible asset. The goodwill has been allocated to the Motor segment. None of the goodwill is expected to be deductible for tax purposes.

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

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

### Vehicle repair workshop

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

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

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

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

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

## 39. Related parties

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

Subject to the preceding sentence, there were no sales or purchases of products and services to or from related parties in the year ended 31 December 2023 (2022: £nil).

### Compensation of key management

| | **2023 £m** | 2022 £m |
|---|---|---|
| Termination benefits | **1.0** | — |
| Short-term employee benefits | **6.6** | 7.6 |
| Post-employment benefits | **0.2** | 0.2 |
| Share-based payments | **2.5** | 3.5 |
| **Total** | **9.3** | 11.3 |

For the purposes of IAS 24 'Related party disclosures', key management personnel comprise the Directors and Non-Executive Directors and the members of the Executive Committee.

## 40.1 First time adoption of new accounting standards

The Group assessed its business model for managing the financial assets held by the Group and classified its financial assets into the appropriate IFRS 9 categories. The impact of the reclassification was as follows:

| Financial asset | Measurement category IAS 39 | Measurement category IFRS 9 | IAS 39 1 January 2022 £m | Remeasurement ECL £m | Remeasurement Other £m | IFRS 9 1 January 2022 £m restated[1] |
|---|---|---|---|---|---|---|
| Debt securities measured at FVTPL | Available-for-sale | Fair value through profit or loss | **4,084.6** | – | – | **4,084.6** |
| Debt securities measured at amortised cost | Held-to-maturity | Amortised cost | **91.2** | (1.2) | – | **90.0** |
| Equity Investments | Fair value through OCI | Fair value through OCI | **6.2** | – | – | **6.2** |
| Equity Investments | Fair value through profit or loss | Fair value through profit or loss | **0.8** | – | – | **0.8** |
| Infrastructure debt | Amortised cost | Amortised cost | **250.8** | (1.8) | – | **249.0** |
| Commercial real estate loans | Amortised cost | Amortised cost | **200.8** | (0.6) | – | **200.2** |
| Other loans[2] | Amortised cost | Amortised cost | **–** | (0.5) | – | **(0.5)** |
| Cash and cash equivalents | Amortised cost | Amortised cost | **955.7** | – | – | **955.7** |
| Derivative financial instruments | Fair value through profit or loss | Fair value through profit or loss | **35.9** | – | – | **35.9** |

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

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

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

## 40.2 First time adoption of new accounting standards

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

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

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

### 40.3 First time adoption of new accounting standards

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

| | 1 January 2022 | First-time adoption of IFRS 9 | First-time adoption of IFRS 17 | | 1 January 2022 |
|---|---|---|---|---|---|
| | | | Presentation changes | Measurement changes | |
| | £m | £m | £m | £m | £m restated[1] |
| **Assets** | | | | | |
| Goodwill and other intangible assets | **822.5** | – | – | – | **822.5** |
| Property, plant and equipment | **113.8** | – | – | – | **113.8** |
| Right-of-use assets | **76.1** | – | – | – | **76.1** |
| Investment property | **317.0** | – | – | – | **317.0** |
| Reinsurance contract assets[2,3] | **1,211.8** | – | (4.4) | (25.7) | **1,181.7** |
| Deferred acquisition costs | **186.6** | – | – | (186.6) | **–** |
| Deferred tax assets | **–** | 0.2 | – | 29.2 | **29.4** |
| Current tax assets | **14.4** | – | – | – | **14.4** |
| Other receivables[2] | **762.8** | – | (734.4) | – | **28.4** |
| Prepayments, accrued income and other assets | **125.1** | (0.9) | – | – | **124.2** |
| Derivative financial instruments | **35.9** | – | – | – | **35.9** |
| Retirement benefit asset | **12.1** | – | – | – | **12.1** |
| Financial investments | **4,633.6** | (3.3) | – | – | **4,630.3** |
| Cash and cash equivalents | **955.7** | – | – | – | **955.7** |
| Assets held for sale | **41.2** | – | – | – | **41.2** |
| **Total assets** | **9,308.6** | **(4.0)** | **(738.8)** | **(183.1)** | **8,382.7** |
| **Equity** | | | | | |
| Shareholders' equity | **2,550.2** | (3.5) | – | (96.1) | **2,450.6** |
| Tier 1 notes | **346.5** | – | – | – | **346.5** |
| **Total equity** | **2,896.7** | **(3.5)** | **–** | **(96.1)** | **2,797.1** |
| **Liabilities** | | | | | |
| Subordinated liabilities | **513.6** | | – | – | **513.6** |
| Insurance contract liabilities[2] | **3,680.5** | – | (365.0) | 1,410.1 | **4,725.6** |
| Reinsurance contract liabilities[3] | **–** | – | – | 3.6 | **3.6** |
| Unearned premium reserve | **1,500.7** | – | – | (1,500.7) | **–** |
| Borrowings | **59.2** | – | – | – | **59.2** |
| Derivative financial instruments | **19.5** | – | – | – | **19.5** |
| Provisions[2] | **96.4** | – | (48.3) | – | **48.1** |
| Trade and other payables[2] | **457.3** | – | (325.5) | – | **131.8** |
| Lease liabilities | **84.2** | – | – | – | **84.2** |
| Deferred tax liabilities | **0.5** | (0.5) | – | – | **–** |
| **Total liabilities** | **6,411.9** | **(0.5)** | **(738.8)** | **(87.0)** | **5,585.6** |
| **Total equity and liabilities** | **9,308.6** | **(4.0)** | **(738.8)** | **(183.1)** | **8,382.7** |

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

The quantitative impact on the consolidated statement of financial position of the first-time adoption of IFRS 9 and 17 on the transition date is explained in note 1.1 of these financial statements.

## 40.4 First time adoption of new accounting standards

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

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

**Note:**

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

# Parent Company Statement of Financial Position

As at 31 December 2023

| | Notes | 2023 £m | 2022 £m |
|---|---|---|---|
| **Assets** | | | |
| Investment in subsidiary undertakings | 2 | **3,445.2** | 3,332.6 |
| Other receivables | 3 | **23.4** | 26.8 |
| Current tax assets | 4 | **14.1** | 6.8 |
| Derivative financial instruments | 5 | **0.3** | 0.1 |
| Cash and cash equivalents | 6 | **118.8** | 112.3 |
| **Total assets** | | **3,601.8** | 3,478.6 |
| **Equity** | | | |
| Shareholders' equity | | **2,693.6** | 2,695.7 |
| Tier 1 notes | 8 | **346.5** | 346.5 |
| **Total equity** | | **3,040.1** | 3,042.2 |
| **Liabilities** | | | |
| Subordinated liabilities | 9 | **258.8** | 258.6 |
| Borrowings | 10 | **301.7** | 176.8 |
| Derivative financial instruments | 5 | **0.3** | 0.1 |
| Deferred tax liabilities | 4 | **0.9** | 0.9 |
| **Total liabilities** | | **561.7** | 436.4 |
| **Total equity and liabilities** | | **3,601.8** | 3,478.6 |

The attached notes on pages 255 to 258 form an integral part of these separate financial statements.

The profit for the year net of tax was £21.2 million (2022: £126.2 million).

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2024.

They were signed on its behalf by:

**NEIL MANSER**

CHIEF FINANCIAL OFFICER

Direct Line Insurance Group plc

Registration No. 02280426

# Parent Company Statement of Comprehensive Income

For the year ended 31 December 2023

| | 2023 £m | 2022 £m |
|---|---|---|
| **Profit for the year attributable to the owners of the Company** | **21.2** | 126.2 |
| **Other comprehensive gain** | | |
| **Items that may be reclassified subsequently to the statement of profit or loss:** | | |
| Gain on fair value through other comprehensive income investments | **–** | 0.1 |
| **Other comprehensive gain for the year net of tax** | **–** | 0.1 |
| **Total comprehensive income for the year attributable to the owners of the Company** | **21.2** | 126.3 |

# Parent Company Statement of Changes in Equity

For the year ended 31 December 2023

| | Share capital (note 7) £m | Capital reserves (note 7) £m | Share-based payment reserve £m | Fair value through other comprehensive income revaluation reserve £m | Retained earnings £m | Shareholders equity £m | Tier 1 notes (note 9) £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2022** | 145.2 | 1,454.8 | 5.0 | (0.1) | 1,333.0 | 2,937.9 | 346.5 | 3,284.4 |
| Profit for the year | – | – | – | – | 126.2 | 126.2 | – | 126.2 |
| Other comprehensive income | – | – | – | 0.1 | – | 0.1 | – | 0.1 |
| **Total comprehensive income for the year** | – | – | – | 0.1 | 126.2 | 126.3 | – | 126.3 |
| Dividends and appropriations paid (note 11) | – | – | – | – | (314.5) | (314.5) | – | (314.5) |
| Shares cancelled following buyback | (2.1) | 2.1 | – | – | (50.1) | (50.1) | – | (50.1) |
| Credit to equity for equity-settled share-based payments | – | – | 9.5 | – | – | 9.5 | – | 9.5 |
| Shares distributed by employee trusts | – | – | (13.4) | – | – | (13.4) | – | (13.4) |
| **Total transactions with equity holders** | (2.1) | 2.1 | (3.9) | – | (364.6) | (368.5) | – | (368.5) |
| **Balance at 31 December 2022** | 143.1 | 1,456.9 | 1.1 | – | 1,094.6 | 2,695.7 | 346.5 | 3,042.2 |
| Profit for the year | **–** | **–** | **–** | **–** | **21.2** | **21.2** | **–** | **21.2** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **21.2** | **21.2** | **–** | **21.2** |
| Dividends and appropriations paid (note 11) | **–** | **–** | **–** | **–** | **(16.6)** | **(16.6)** | **–** | **(16.6)** |
| Credit to equity for equity-settled share-based payments | **–** | **–** | **12.6** | **–** | **–** | **12.6** | **–** | **12.6** |
| Shares distributed by employee trusts | **–** | **–** | **(19.3)** | **–** | **–** | **(19.3)** | **–** | **(19.3)** |
| **Total transactions with equity holders** | **–** | **–** | **(6.7)** | **–** | **(16.6)** | **(23.3)** | **–** | **(23.3)** |
| **Balance at 31 December 2023** | **143.1** | **1,456.9** | **(5.6)** | **–** | **1,099.2** | **2,693.6** | **346.5** | **3,040.1** |

The attached notes on pages 255 to 258 form an integral part of these separate financial statements.

# Notes to the Parent Company Financial Statements

## 1. Accounting policies

### 1.1 Basis of preparation

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

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

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

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

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

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

- FRS 101.8 (d): the requirements of IFRS 7 'Financial Instruments: Disclosures' to make disclosures about financial instruments;
- FRS 101.8 (e): the disclosure requirements of IFRS 13 'Fair Value Measurement';
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 111, and 134 to 136 of IAS 1 'Presentation of Financial Statements' to produce a cash flow statement and to make an explicit and unreserved statement of compliance with IFRSs, additional comparative information and capital management information;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.

#### Adoption of new and revised standards

Full details of the new and revised standards adopted by the Company are set out in note 1.1 to the consolidated financial statements.

### 1.2 Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

## 2. Investment in subsidiary undertakings

| | 2023 £m | 2022 £m |
|---|---|---|
| **At 1 January** | **3,332.6** | 3,322.9 |
| Additional investment in subsidiary undertakings | **112.6** | 9.7 |
| **At 31 December** | **3,445.2** | 3,332.6 |

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

## 2. Investment in subsidiary undertakings continued

| Name of subsidiary | Company registration number | Place of incorporation and operation | Principal activity |
|---|---|---|---|
| **Directly held by the Company:** | | | |
| Direct Line Group Limited[1] | 02811437 | United Kingdom | Intermediate holding company |
| DL Insurance Services Limited[1] | 03001989 | United Kingdom | Management services |
| Finsure Premium Finance Limited[1] | 01670887 | United Kingdom | Non-trading company |
| Inter Group Insurance Services Limited[1] | 02762848 | United Kingdom | Dormant[5] |
| UK Assistance Accident Repair Centres Limited[1] | 02568507 | United Kingdom | Motor vehicle repair services |
| UK Assistance Limited[1] | 02857232 | United Kingdom | Dormant[5] |
| U K Insurance Business Solutions Limited[1] | 05196274 | United Kingdom | Insurance intermediary services |
| U K Insurance Limited[2,3] | 01179980 | United Kingdom | General insurance |
| **Indirectly held by the Company:** | | | |
| Brolly UK Technology Limited[1] | 10134039 | United Kingdom | Dormant[5] |
| By Miles Group Ltd[1] | 12270837 | United Kingdom | Intermediate holding company |
| By Miles Ltd[1] | 09498559 | United Kingdom | Business support services |
| By Miles Payments Services Ltd[1] | 12190473 | United Kingdom | Business support services |
| By Miles Technology Services Ltd[1] | 12189384 | United Kingdom | Software development |
| Churchill Insurance Company Limited[1] | 02258947 | United Kingdom | General insurance |
| Direct Line Insurance Limited[1] | 01810801 | United Kingdom | Dormant[5] |
| DL Support Services India Private Limited[4] | See footnote 4 | India | Support and operational services |
| DLG Legal Services Limited[2] | 08302561 | United Kingdom | Legal services |
| DLG Pension Trustee Limited[1] | 08911044 | United Kingdom | Dormant[5] |
| Farmweb Limited[1] | 03207393 | United Kingdom | Dormant[5] |
| Green Flag Group Limited[2] | 02622895 | United Kingdom | Intermediate holding company |
| Green Flag Holdings Limited[1] | 03577191 | United Kingdom | Intermediate holding company |
| Green Flag Limited[2] | 01003081 | United Kingdom | Breakdown recovery services |
| Intergroup Assistance Services Limited[1] | 03315786 | United Kingdom | Dormant[5] |
| National Breakdown Recovery Club Limited[1] | 02479300 | United Kingdom | Dormant[5] |
| Nationwide Breakdown Recovery Services Limited[1] | 01316805 | United Kingdom | Dormant[5] |
| The National Insurance and Guarantee Corporation Limited[1] | 00042133 | United Kingdom | Dormant[5] |
| UKI Life Assurance Services Limited[1] | 03034263 | United Kingdom | Dormant[5] |

**Notes:**
1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited has a branch in the Republic of South Africa and a branch in the Republic of Ireland.
4. Registered office at: Max House, Level 5, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
5. These entities have not been audited, in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.

At 31 December 2023, the carrying amount of the Company's net assets of £3,040.1 million (2022 £3,042.2 million) exceeded the Group's market capitalisation of £2,386.1 million (2022: £2,902.1million). The Group has performed an impairment test in line with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairments were required to any of the Company's investments in its subsidiaries.

The recoverable amounts of each investment were based on the higher of the value-in-use test, using the strategic plan, and the fair value which was deemed to be equal to the subsidiaries' net asset values. For each investment in subsidiary the recoverable amount was greater than the carrying value of the cost of investment resulting in no impairment required for the year ended 31 December 2023 (2022: £nil).

## 3. Other receivables

| | 2023 £m | 2022 £m |
|---|---|---|
| Loans to subsidiary undertakings[1] | **16.9** | 21.1 |
| Trade receivables due from subsidiary undertakings | **6.0** | 5.4 |
| Other debtors | **0.5** | 0.3 |
| **Total[2]** | **23.4** | 26.8 |

**Notes:**
1. All loans are neither past due nor impaired.
2. All other receivables are classified as current.

## 4. Current and deferred tax

| | 2023 £m | 2022 £m |
|---|---|---|
| **Per statement of financial position:** | | |
| **Current tax assets** | **14.1** | 6.8 |
| **Deferred tax liabilities** | **(0.9)** | (0.9) |

The deferred tax liability is in respect of temporary differences in Tier 1 notes.

## 5. Derivative financial instruments[1]

| | Notional amount 2023 £m | Fair value 2023 £m | Notional amount 2022 £m | Fair value 2022 £m |
|---|---|---|---|---|
| **Derivative assets** | | | | |
| **Designated as hedging instruments:** | | | | |
| Foreign exchange contracts (forwards)[2] | **14.5** | **0.3** | 3.4 | 0.1 |
| **Total** | **14.5** | **0.3** | 3.4 | 0.1 |
| **Derivative liabilities** | | | | |
| **Designated as hedging instruments:** | | | | |
| Foreign exchange contracts (forwards)[2] | **14.5** | **0.3** | 3.4 | 0.1 |
| **Total** | **14.5** | **0.3** | 3.4 | 0.1 |

**Notes:**
1. The derivative assets and liabilities are both classified as level 2 within the Group's fair value hierarchy set out in note 37 of the consolidated financial statements.
2. The foreign exchange cash flow hedges have been entered into on behalf of the Group's subsidiary companies.

## 6. Cash and cash equivalents

| | 2023 £m | 2022 £m |
|---|---|---|
| Cash at bank and in hand | **0.3** | – |
| Short-term deposits with credit institutions[1] | **118.5** | 112.3 |
| **Total** | **118.8** | 112.3 |

**Note:**
1. This represents money market funds.

## 7. Share capital, capital reserves and distributable reserves

Full details of the share capital and capital reserves of the Company are set out in notes 27 and 28 to the consolidated financial statements.

Of the Company's total equity, £1,099.2 million (2022: £1,094.6 million), being the total of its retained earnings, is considered to be distributable reserves.

## 8. Tier 1 notes

Full details of the Tier 1 notes of the Company are set out in note 29 to the consolidated financial statements.

## 9. Subordinated liabilities

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

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

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

The Company has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated guaranteed dated notes at 31 December 2023 was £212.8 million (2022: £204.9 million).

## 10. Borrowings

| | 2023 £m | 2022 £m |
|---|---|---|
| **Loans from fellow subsidiaries within the Group[1]** | **301.7** | 176.8 |

**Note:**

1. Included in the above is a loan of £93.1 million (2022: £69.2 million) from UK Assistance Accident Repair Centres Limited. All loans from fellow Group subsidiaries are repayable by 31 December 2024.

## 11. Dividends

Full details of the dividends paid and proposed by the Company are set out in note 12 to the consolidated financial statements.

## 12. Share-based payments

Full details of share-based compensation plans are provided in note 31 to the consolidated financial statements.

## 13. Risk management

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

## 14. Employees, Directors and key management remuneration

The Company has no employees. The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 7 to the consolidated financial statements, the compensation for key management is set out in note 39 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest-paid Director are included in the Directors' Remuneration Report in the Governance section of the Annual Report and Accounts.