Ageas Insurance Limited

Annual Report
For the year ended 31 December 2022

Company Registration Number : 354568

Ageas Insurance Limited
Company registration number 354568
Contents of Annual Report

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Directors and Advisers

Directors

Hans De Cuyper	
Bart De Smet	
Gregor Ball	(resigned 31 March 2023)
Antonio Cano	
Jeremy Haynes	
Richard Jackson	
Malcolm McCaig	
Anthony Middle	
Nerissa Nadu	(appointed 31 March 2023)
Alison Platt	(appointed 1 June 2022)
Jonathan Price	
Tara Waite	
Mark Winlow	(resigned 30 September 2022)

Secretary

Claire Marsh

Head Office and Registered Address

Ageas House
Hampshire Corporate Park
Templars Way
Eastleigh
SO53 3YA

Independent Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

HSBC
Rms Dept Level 2 2nd Floor
62-76 Park Street
London
SE1 9DZ

Registered Number

354568
Registered in England and Wales

Strategic Report

The Directors present their Strategic Report on the Company for the year ended 31 December 2022.

Business Review

Activities

The principal activity of Ageas Insurance Limited ('the Company') is the provision of general insurance in the United Kingdom, with a small proportion written in the Channel Islands. The core products that are sold by the Company are:

- Motor related insurance;
- Property related insurance; and
- Travel and special risks insurance.

During the year the Company completed the sale of its Commercial Lines business, which allows the Company to focus on its strategy on growth within the Personal Lines market. See note 11 for further details.

The Company adopts a multi-channel distribution model focusing on direct and intermediated channels, supported by technical excellence.

Financial Performance during the year

Gross Written Premiums ('GWP') totalled £1,078.4m (2021: £1,208.3m) decreasing by 10.8% compared to 2021. This reflects reduced volumes due to pricing discipline being applied in response to the inflationary environment in addition to the sale of the Commercial lines business (see note 11 for further details) and planned exit from some underperforming schemes, which is in line with the Company's strategy.

Profit after tax for the year was £14.6m (2021 profit: £35.9m), which include the proceeds of £52.5m from the sale of the Commercial Lines business. The Company was faced with high inflation within Personal Motor, with storms, fires and subsidence from a very dry summer, and the December freeze driving weather events costs above normal expectations for the year.

On 15 February 2022, the Company announced the sale of its Commercial Lines business to AXA Insurance UK PLC ('AXA'), recognising initial consideration of £47.5m and contingent deferred consideration of £5m, realising a profit of £52.5m. The Company's Commercial lines business transferred to AXA throughout 2022, while existing back book policies will remain with the Company in run-off.

The sale has been disclosed separately on the face of the income statement. See note 11 for further details.

The Company ceded a £16.6m losses before tax in respect of the premiums, claims and expenses (2021: £14.5m profit) under its reinsurance agreements with ageas SA/NV, the ultimate parent holding company, where 40% of both prior and future claim liabilities are transferred under a loss portfolio transfer agreement and quota share treaty respectively. See note 37 for further details.

The Combined Operating Ratio ('COR') for 2022 before non-recurring administration items was 108.5% (2021: 99.2%). The deterioration in the year is as a result of high inflation, storms, fires and subsidence from a very dry summer, and the December freeze driving weather events costs above normal expectations for the year.

Other Comprehensive Income ('OCI') reflects the change in fair value of financial assets and movements in the defined benefit pension surplus net of tax. The change in fair value of financial assets saw a reduction to equity of £63.8m after tax (2021: reduction £34.6m) due to a widening of credit spreads. Remeasurements of the net defined benefit pension scheme assets and liabilities has led to a net negative contribution of £12.9m after tax to equity (2021: positive £18.0m) following rises in gilt yields and actual inflation running higher than expected.

Key Financial Performance Indicators

The Board considers that the key indicators that will communicate the financial performance and strength of the Company are:

- Gross written premiums
- Profit before taxation
- Combined operating ratio
- Return on equity

	2022 £m	2021 £m	Change %
Gross written premiums	1,078.4	1,208.3	(10.8)%

The written premium drives the size of the business, and reflects actions to ensure that business is underwritten at the appropriate rates for the risks undertaken.

	2022 £m	2021 £m	Change %
Profit before taxation	17.7	37.1	(29.4)%
(Loss)/profit before taxation and non-recurring administrative expenses and one-off gain on disposal	(34.8)	42.2	(180.2)%

The Company aims to deliver sustainable growth in profits over the insurance cycle by risk selection at appropriate rates, rigorous expense control and the delivery of superior customer service to its policyholders and intermediaries.

	2022 %	2021 %	Change %
Combined operating ratio	108.5%	99.2%	(9.3)%

The combined operating ratio is a measure of the Company's efficiency. It is calculated as the total of incurred claims, commissions, expenses, other operating income and reinsurance, as a percentage of net earned premiums.

	2022 %	2021 %	Change %
Return on equity after tax	3.2%	6.8%	(3.6)%
Return on equity after tax and before non-recurring administrative expenses	(7.7)%	8.0%	(15.7)%

The return on equity after tax is a key measure of the total return the Company generates for its shareholder. Return on equity is measured by taking the profit after tax over average shareholders' equity.

Year End Position

Shareholders' equity

Shareholders' equity decreased in the year by £138.5m to £383.6m, from an opening position of £522.1m. This was driven by the payment of two dividends in the year totalling £76.4m (2021: £32.4m), a decrease in fair value of investments of £63.8m (2021: decrease £34.6m) and a decrease in retained earnings of £12.9m (2021: increase £18.0m) as a result of the remeasurement of the defined benefit pension scheme. These were offset by a profit after tax in the year of £14.6m (2021: £35.9m).

Assets

Total assets have decreased by £227.8m in the year to £2,843.5m (2021: increase of £6.8m). The decrease has been driven by a reduction in the fair value of financial assets, a reduction in deferred acquisitions costs following reduced gross written premiums and a reduction in the defined benefit scheme surplus following updated assumptions in the year.

Liabilities

Total liabilities have decreased by £89.3m in the year to £2,459.9m (2021: increase of £19.9m) mainly as a result of a decrease in unearned premium as a result of reduced volumes and a reduction in insurance and other payables. These have been offset by an increase in outstanding claims as a result of weather events.

Financial assets and cash and cash equivalents

Total financial assets (including cash and cash equivalents) have decreased by £183.7m (2021: decrease of £22.3m) following a reduction in the fair value of investments and a dividend payments made in the year. All available-for-sale financial assets are liquid and can be converted to cash in a normal market at short notice. Financial assets valued at fair value through profit or loss can be converted to cash subject to the fund manager's terms and conditions on notice. Further details on financial assets can be found in note 22 and on cash and cash equivalents in note 24.

Non-Financial Information

The following section outlines the key non-financial matters of the Company.

Environmental matters

The Company is committed to a sustainable and responsible approach to its impact on the environment through a number of measures which include, but are not limited to:

- recycling rates,
- CO2 emission reporting; and
- energy usage.

Employees

For an overview of employee numbers and how the Company engages with its employees, see the Report of the Directors on page 9.

Non-Financial Information (continued)

Human rights

The respect for human rights, as described in the Universal Declaration of Human Rights of the United Nations of 1948, is a condition for maintaining a sustainable society. The Company applies the relevant human rights principles in relationships with employees and suppliers and acknowledges responsibility for promoting the application of human rights whenever the Company, as a private enterprise, is in a position to make a meaningful contribution to this cause.

Social matters

The Company instils a culture which is inclusive and supports diversity, which is essential to the long-term success of the business and better enables the Company to respond to customer and wider stakeholder needs. This is reflected in the Company's diversity and inclusion strategy and policy, which applies to the Company as a whole. Further details are given in the Report of the Directors on page 9.

Anti-corruption and anti-bribery

The Company's reputation as a market leading insurer is important to the directors and is maintained and enhanced by proper business conduct. The Company operates a policy of zero-tolerance to any form of bribery or corruption whether through direct or indirect contact with third parties. The appropriate policy defines this stance in accordance with the Bribery Act 2010 and Financial Conduct Authority ('FCA') requirements in order to avoid any acceptance or offering of bribes or sales inducements.

The Company has procedures in place to ensure ongoing compliance with the policies referenced above. Adherence to the policies and applicable legislation and guidance is monitored by Ageas UK's Compliance department.

Non-Financial Key Performance Indicators

The Board consider other metrics that are monitored internally, which are not key to the reader's understanding of the development, performance or position of the Company's business.

Section 172(1) statement

The Ageas UK directors have always been aware of and attentive to all of their duties and responsibilities, including those as set out under section 172 of the Companies Act 2006, when setting and embedding Ageas UK's culture and values in line with its purpose to 'Understand People + Simplify Insurance'. The Ageas UK Boards (including the Board of Ageas Insurance Limited) recognise that the long-term success of the Company is only possible through engagement with, and having regard to, the interests of key stakeholders, which for Ageas UK includes customers, employees, shareholders, suppliers, the community, environment, and regulators.

The Ageas UK Boards' role is to perpetuate the long term, sustainable success of the Ageas UK business; providing strategic leadership within a framework of prudent and effective controls, setting the strategy, ensuring the direction and performance of the business is aligned to Ageas Group objectives, and that obligations to all stakeholders are understood and met. A range of mechanisms have been established to support directors in the discharge of their duties, and for each matter which comes before the Boards, stakeholders who may be affected and their interests are carefully considered as part of the decision-making process. Further detail has been incorporated within the Corporate Governance and Stakeholder Engagement statements set out in this report and in the Report of the Directors on pages 9 - 13.

Corporate Governance Statement

Ageas UK considers a strong culture of corporate governance and ethical behaviour is fundamental to the way it does business, and therefore a governance framework that complies with the Wates Corporate Governance Principles for Large Private Companies (Wates Principles) has been adopted by the Ageas UK Boards. An Ageas UK Governance Manual has been established which incorporates these principles, together with those as set out within the PRA Rulebook, the FCA Handbook and the UK Corporate Governance code (where relevant), which explains how these principles are reflected in the organisation and operations of the Ageas UK businesses. The corporate governance framework is reviewed at least annually by the Ageas UK Boards to confirm that governance arrangements remain effective.

The Company complies with the Wates Principles as follows:

Principle one: Purpose and Leadership

The purpose of Ageas UK is to 'Understand People + Simplify Insurance'. The Ageas UK Boards develop and promote this purpose, and ensure that its vision, values, strategy, and culture align with it. This purpose, as well as the Ageas Group wide values of 'Care, Dare, Deliver and Share', form the basis of the Ageas UK Strategy set by the Ageas UK Boards and are embedded into Ageas UK's way of working. The purpose and values underpin Ageas UK's strategy to have 'a sharp focus to deliver better results, with brilliant service where it matters'. Details have been cascaded to employees by the UK Executive Team at a series of employee briefings, with functional and individual priorities and objectives aligned to the values and strategy, and recognition schemes reflecting the values and these strategic priorities.

The Ageas UK Boards set the tone from the top, they have articulated the desired culture within the Ageas UK values and behaviours framework and the UK strategy, and act in a manner consistent with this framework, including building positive relationships with all stakeholders. Formal responsibility for leading the development of culture, and for overseeing the adoption of Ageas UK's culture on a day to day basis has been apportioned by the Ageas UK Boards to the Chair and CEO, with quarterly reports providing information to support oversight.

Principle two: Board Composition

Ageas UK is committed to attracting and retaining Boards of Directors whose composition reflects a diversity of backgrounds, skills, knowledge, abilities, and experience necessary for the Boards to be effective, including the appointment of Independent Non-Executive Directors ('INEDs') with the capacity and capabilities to make a valuable contribution, and provide independent and informed challenge. The objective is that the Boards as a whole have the appropriate range of competencies and experiences, with sufficiently independent and informed challenge provided to the Executive Directors both from an external perspective (via INEDs) and from an Ageas Group perspective (via Ageas Group Executive and Non-Executive Directors). Appointments are based on merit, and also consider diversity and the mix of skills required. A copy of the Ageas UK Boards' diversity and inclusion statement is available on the Ageas UK website (www.ageas.co.uk) and further information regarding Ageas' approach to diversity and inclusion can be found in the Stakeholder Engagement statements on page 11. The current composition of the Ageas Insurance Limited Board is set out on page 1.

There is a clear division of responsibilities between the Chair of the Boards and the CEO, whereby the Chair is responsible for the leadership of the Boards, and the CEO is responsible for the day to day leadership of the business operations. The Chair is an INED and has a pivotal role in setting the Boards' cultural tone, facilitating positive behaviours, and creating the conditions for the overall effectiveness of the Boards and individual directors.

A formal review and assessment of the performance of the Board and its directors is undertaken on a regular basis, with the next Board effectiveness review planned for 2023.

Ageas UK is committed to the ongoing professional development of the Board, and the training and the development needs of each director are regularly reviewed. To support Board development, a series of focus sessions are organised throughout the year and directors engage with all training opportunities provided.

Principle three: Director Responsibilities

The decision-making framework within Ageas UK is defined by the Ageas UK Boards using high-level parameters agreed with Ageas Group. It reflects the principle of delegated authority based on competence and appropriate mechanisms and triggers for escalation. The framework is a tiered approach with ultimate authority in the UK resting with the Ageas UK Boards. Guiding principles have been established by the Ageas UK Boards within the Ageas UK Governance Manual, and roles and responsibilities are clearly articulated in the Boards' Terms of Reference. The Boards delegate authority to certain key governance committees and the scope and responsibilities of each committee is set out in separate Terms of Reference which are agreed by the Boards.

The corporate governance framework also operates effectively through individuals fulfilling their responsibilities. These are outlined within specific job descriptions, role profiles and the Ageas UK Management Responsibilities Map. Accountabilities are further recorded within policies and processes where relevant.

The Ageas UK Boards receive timely, accurate, complete, and relevant management information, in a form and of a quality appropriate to enable it to discharge its duties. In particular, the Board receives a balanced and understandable assessment of the Company's performance, strategic position, stakeholders, and prospects consistent with the values and standards set.

Principle four: Opportunity and Risk

The role of the Ageas UK Boards is to perpetuate the long term, sustainable success of the Ageas UK business, Ageas UK strategy is set by the Boards, balancing entrepreneurship with sound control and risk management.

The Ageas UK Boards are supported by the Board Risk Committee, which is comprised of INEDs and a Group Executive Director. This Committee assists the Boards in fulfilling their responsibilities for the oversight of the adequacy and effectiveness of risk governance and the capital allocation models, and in particular the risk profile relative to the risk appetite determined by the Ageas UK Boards. The Committee reports to the Ageas UK Boards on its activities, and the principal risks and uncertainties have been documented within the strategic report.

Ageas UK is organised within a "three lines of defence" model of operation consistent with that established across the Ageas Group. Management and staff within each Ageas UK function have the primary responsibility for owning and managing risks (first line of defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (second line of defence). The third line of defence is provided via independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework by the Internal Audit Function. Both the Audit Committee and the Board Risk Committee oversee the adequacy and effectiveness of internal controls, receiving reports from the Risk Management, Compliance and Internal Audit Functions and track actions.

Principle five: Remuneration

The Ageas UK Boards have established a Remuneration Committee, comprised of Group Executive and Non-Executive Directors, to consider and ensure that the framework and arrangements that govern the remuneration of the executive and senior management are appropriate, transparent, and aligned with Ageas UK's long term business strategy, risk appetite and values. The Terms of Reference of the Remuneration Committee make it clear that the pay and employment conditions of all Ageas UK employees is considered when reviewing the structure of the Executive remuneration package. Employees of work level 6 and above are invited to participate in the Ageas Group Share Linked Incentive Plan.

Principle six: Stakeholder Relationships and Engagement

The Ageas UK Boards have a responsibility to set and maintain a culture, values and standards that have customers at the heart of how the Company's business is conducted and to ensure that the Company's obligations to its shareholders and other stakeholders, including customers, employees, suppliers, the community, the environment, and regulators, are understood and met.

A range of mechanisms have been established to support directors in the discharge of their duties and obligations to key stakeholders are understood and met, and further detail, including the Company's approach to diversity and inclusion, and environmental social and governance matters has been included within the Stakeholder Engagement statements on pages 9-13.

Strategic direction

During 2022 the Ageas UK Executive continued to execute the three year strategy set by the Ageas UK Boards in 2021. Regular updates as to the progress of the strategy are reported to and considered by the Ageas UK Boards quarterly. The strategic purpose of the Company is aligned to that of the Ageas UK Group, which is to Understand People + Simplify Insurance, this is supported by focusing on four key areas:

- *Competing where we can win*
  Ageas remains committed to becoming market leaders in Broker personal lines and Direct, with ambitious plans to grow Gross Written Premiums.

- *Maximising Commercial Value*
  Ageas is applying sharp focus to everything we do, reinvesting in efficiencies to sharpen our competitive position.

- *Investing in the Best*
  Ageas is committed to investing in key areas and technologies to support the business growth ambitions.

- *Pride in Low Cost*
  As well as investing, Ageas aims to build genuine pride in being a truly low-cost business by working and buying smarter.

Principal risks and uncertainties

The Company has identified the following principal risks and uncertainties:

- insurance,
- regulation,
- market,
- credit,
- liquidity,
- operational,
- sustainability and climate change;
- pension, and
- capital management.

A review of these principal risks and uncertainties and the way in which they are managed is detailed in note 3 to the financial statements.

This report was approved by the Board of Directors on 31 March 2023 and signed on behalf of the board by:

Jonathan Price
Chief Financial Officer

Report of the Directors

The directors submit their report, together with the audited financial statements for the year ended 31 December 2022.

Results

The results of the Company are contained in the financial statements on pages 15 to 86. The 2022 profit before tax was £17.7m (2021: £37.1m).

Business review and future direction

The business review and future direction of the Company is set out in the Strategic Report on pages 2 to 8.

Dividends

The Company paid dividends totalling £76.4m during the year (2021: £32.4m).

Use of financial instruments

Further information on the Company's risk management process and the policies for mitigating certain risks are set out in note 3. Details of the financial instruments used for these purposes are disclosed in note 20.

Directors

The Members of the Board are shown on page 1. All directors served throughout the year and to the date of this report except as highlighted on page 1.

Employees

The average number of persons employed in the United Kingdom by the Company during the year was 1,898 (2021: 1,968). The full time equivalent number of employees adjusted for part time staff was 1,784 (2021: 1,857). Their annual aggregate remuneration was £77.9m (2021: £83.7m). An analysis is shown in note 33.

Stakeholder Engagement Statements

Ageas UK Shareholder, ageas SA/NV

Given ageas SA/NV's 100% ownership of the Company, the promotion of the long-term success of Ageas UK, including the development of a clear UK purpose and strategy, is fully aligned to and supportive of Ageas SA/NV's strategy, Impact 24. During 2022 Ageas SA/NV was represented on the Ageas UK Boards by Ageas Group Executive and Non-Executive Directors.

During 2022 the Ageas Insurance Board, having considered that the Company would have the appropriate resources to continue to meet debts as they fall due, resolved that two interim dividends totalling £76.4m (2021: £32.4m) be declared, to be paid to Ageas (UK) Limited.

Customers, Brokers and Partners and Suppliers

Customers are at the heart of how Ageas UK's business is conducted, supported by its purpose which is set by the Boards and articulated within the Ageas UK strategy. Customer interests continued to be a key consideration in a wide range of activities overseen by the Ageas UK Boards during 2022, with particular areas of focus being the actions taken to support customers who may have been adversely impacted by the cost of living crisis, together with progress made to support customers manage their digital online services.

Customers, Brokers and Partners and Suppliers (continued)

Ageas UK maintained the Institute of Customer Service 'Service Mark' Accreditation in 2022 having continued to uphold customer satisfaction scores above thee all sector average. To support oversight, quarterly customer experience reports have been provided to the Ageas UK Boards, and Board Members attended spotlight sessions focussing on the customer, which provided insight into the Customer Service Strategy, the development of the Digital Customer Journey, Claims Supply Chain Management, and the FCA's new Consumer Duty. As part of the customer experience improvement programme, Ageas UK continued to engage directly with customers to gain a detailed understanding of what works well and where improvements can be implemented. During 2022 the digital transformation programme led to the creation of greater online service offerings for customers, supporting customers to manage their insurance policies as they choose. The work undertaken was recognised by the Insurance Times Claims and Excellence Awards, with Ageas winning Claims Team of the Year - Digital Transformation.

Several initiatives were implemented in 2022 to improve the Ageas UK Customer experience and to ensure customers continue to receive fair outcomes. Actions taken to support customers impacted by the cost of living crisis included the roll out of the Ageas Care programme, which provided for updated training to customer service teams and the introduction of a broad range of flexible financial options to support customers impacted by the cost of living crisis. The Ageas UK Board has also been provided with regular updates regarding the implementation of the FCA's new Consumer Duty, which sets a higher level of consumer protection in retail financial markets for firms to adhere to and during 2022 a project team was established, the Ageas UK Boards considered and approved the Consumer Duty implementation plan and an Independent Non-Executive Director appointed Consumer Duty champion.

Ageas UK's relationships with brokers and intermediaries are fundamental to its distribution because the majority of its business is conducted through this channel, for this reason a focus of the Ageas UK strategy is to grow personal lines business via brokers. During 2022 several new arrangements were successfully established in support of the strategy; a new Home product was launched on the Amazon Insurance Store and the Ageas UK Boards approved a strategic underwriting arrangement with Geo Underwriting Ltd, extending the partnership with the Ardonagh Group to combine our insurance expertise. A major step forward in the strategy of growing the personal lines business was the sale of the Commercial line of business to AXA Insurance UK PLC (AXA), approved by the Ageas UK Boards in early 2022. To support Broker engagement and to understand their experiences working with Ageas, a feedback tool 'your Platform' is provided and the high level results received shared with the Ageas UK Boards.

Ageas UK uses a wide variety of suppliers. Like most large businesses it engages with suppliers to support the provision of core business activities (e.g. IT), the supply of commodities, maintenance service contracts or facilities management services, such as catering and cleaning providers. As an insurer it also engages with suppliers of goods and repair services when customers' property has been lost or damaged, and medical and assistance services when customers have suffered accident or injury. During the year the Ageas UK Boards agreed the investment and appointment of EIS, a core and digital platform provider, to support the delivery of a digital business transformation programme, which when completed will provide Ageas UK with the infrastructure in support of the Company's digital ambition. Ageas UK is committed to high standards of business conduct and has policies and procedures in place to define the way in which Ageas wants to do business and the standards of conduct required. During 2022 Ageas has worked closely with suppliers to ensure providers of repairs and other services were able to continue to do so. Where Ageas appoints a third party to undertake any business activities, Ageas expects they are carried out in line with Ageas' standards and risk appetite.

Employee engagement

Attracting, developing, retaining and engaging our people is central to our success as a business, enabling Ageas UK to achieve its strategy by building 'Podium People'. Throughout 2022 the Ageas UK Boards have overseen a number of activities that have sought to: develop a strong people culture, driving engagement, commitment and strong leadership; create a positive working environment in which people have the tools and resources to give their best; grow and attract strong technical skills and capabilities; and improve efficiency and effectiveness, reducing costs where possible.

Employee engagement (continued)

Ageas UK as a signatory of the Association of British Insurers (ABI) Making Flexible Work Charter, formalised flexible working at Ageas UK with the roll out of Smart Working, providing employees flexibility over their location of work, trialling fully remote working practices within certain areas of the business. The Ageas UK Boards were kept appraised of the implementation of the Smart Working along with feedback from employees via “Peakon” the digital employee engagement tool which enabled the business to monitor employee sentiment on a real time basis and respond accordingly. Employee engagement scores remained positive throughout 2022, with Ageas certified as a Top Employer by the Top Employers Institute.

The cost of living crisis and highly competitive labour market have been key areas of focus for the Ageas UK Boards during 2022 and the Ageas UK Boards agreed to a package of financial support measures to help employees during these challenging times. To ensure that Ageas was able to retain and attract great people, and following feedback received via Peakon, during 2022 a review of reward arrangements across the business was undertaken, with updates on progress and the proposed actions routinely shared with the Ageas UK Boards. The health and wellbeing of our people remained a key priority throughout 2022, with the cost of living crisis impacting all staff, in addition to the financial support provided, several campaigns were promoted throughout the year with a focus on financial, physical and mental wellbeing.

To reinforce the strong People culture Ageas UK provides our people with timely and regular communications issued via the digital tool “Workplace”; The learning and development platform “People Hub” continued to be enhanced to support remote working and ongoing learning. Employees have also been kept up to date regarding business as usual matters such as strategy and performance through a variety of virtual and in person events including formal leadership events, employee briefings and the Employee Forum. The Employee Forum has continued to perform a vital role supporting the engagement of employees, it convenes quarterly, is supported by the Ageas UK CEO and HR Director, facilitating the escalation and cascade of key messages, from and to the Executive team and the Ageas UK Boards, such as providing input into the approach to the reward review. As agreed by the Ageas UK Boards, the Chair of the Remuneration Committee, an INED, is invited to attend the Employee Forum and meets the Chair of the Forum, without the Executive present, in order to enhance the engagement between the Employee Forum and the Ageas UK Boards.

To support the delivery of the strategy organisational restructuring has continued throughout 2022 and the Ageas UK Boards approved a proposal to proceed with redundancy consultations impacting employees across a number of functions. The Employee Forum supported the consultation and communication process and Ageas UK provided support for those employees leaving the business including career transition support via a third party. As part of the sale of the Commercial lines business to AXA, Ageas UK secured the continued employment for affected employees with c.100 of our people transferring to AXA as part of the arrangement.

Ageas UK has established and promotes a culture where employees have the confidence and ability to raise their concerns. The Ageas UK Board approved a Speak Up policy and process provides clear principles and guidance on the action to take in the event of bullying, harassment or victimisation or in the event of a financial crime such as Internal Fraud, Money Laundering or if Data Theft was identified. Ageas Directors and managers have a responsibility to ensure that mechanisms are in place to encourage such concerns to be raised and any wrongdoing dealt with. The Chair of the Audit Committee has responsibility for the maintenance of the independence, autonomy and effectiveness of Ageas UK whistleblowing policies and procedures; he reported to the Ageas UK Boards and Audit Committee in 2022 stating his view that the systems and controls in place were satisfactory.

Diversity and inclusion

The Company is committed to a culture which is inclusive and supports diversity, helping Ageas achieve the combined purpose to understand people and simplify insurance. Recruitment, promotion, career development, selection for training and all other aspects of people management are regularly reviewed and monitored to ensure they are free from discrimination, including all protected characteristics as set out in the Equality Act 2010. The Ageas UK Boards have set the policies and standards within which the Company will operate, and the Boards’ approach to diversity and inclusion is monitored regularly.

Diversity and inclusion (continued)

An Inclusion Steering Group known as ‘Momentum’, chaired by the Ageas UK CEO has been established, comprised of senior representatives from each area of the business who are held accountable for progress against the diversity targets. During 2022 the inclusion plan was refreshed with the aim of: reducing the gender pay gap target; increasing the representation of women at senior levels target; improving overall ethnic minority representation and understanding of their experiences as applicants and employees; and to increase the inclusion of applications and employees with disabilities with the aim of achieving Disability Confident Leader status by the end of 2023. Further work was undertaken to ensure products, services, procurement and marketing reflect Ageas UK’s commitment to diversity and inclusion, and during 2022 Ageas became a member of iCan, the insurance industry’s cultural awareness network. The gender pay gap report is provided to the Ageas UK Boards annually, together with progress against agreed targets. Since 2021 Ageas UK has published data on ethnicity, disability and LGBTQIA+ pay gaps, as well as the gender pay gap. The work to deliver the Company’s gender targets, includes the Women in Insurance Programme (WIN) and following the programme’s success in the UK, during 2022 Ageas UK led a pilot of the global version of the programme across the broader Ageas Group. In 2022 the WIN programme won the Insurance Times 2022 Diversity and Inclusion Excellence Award for its demonstrable impact on the careers of Ageas women.

Ageas UK policies and standards are aligned to legislation relating to discrimination in employment, including the employment of people with disabilities. Further improvements to the provision for applicants and colleagues with disability had led to Ageas UK achieving Disability Confident Level 2 status. During 2022 Ageas UK has focussed on raising awareness of autism and has partnered with GAIN, an organisation working across the insurance industry to raise awareness. Employees with disabilities are treated fairly and can compete on equal terms for career progression, an applicant with a disability who meets the minimum criteria is guaranteed an interview. Ageas UK is committed to continuing the employment of, and for arranging training for, employees who have become disabled while employed by Ageas.

Community and Environment

In terms of the wider society, we continue to support the important work of the Road Safety Foundation to measure, map and track the safety performance of Britain’s main roads. We are also proudly taking an industry lead in key initiatives that have an important environmental and economic impact such as the “green parts” initiative to make the repair of vehicles more sustainable. This award-winning initiative reduced plastic and metal waste, giving a second life to car parts that would have otherwise been scrapped, whilst alleviating supply chain challenges. In 2022 the initiative was recognised by the Times Claims Excellence Awards, Claims Service Solution of the Year.

The Company supports a “Charity of the Year” as nominated by the employees, which for 2022 was Air Ambulance UK and this partnership has been extended until the end of 2023. The Company also supported those who may have been affected by the war in Ukraine both financially, by matching employee donations made to the British Red Cross Ukrainian Crisis appeal; and also, in alignment with the Association of British Insurers campaign, by extending insurance policy coverage for those customers who were helping those affected by the crisis. Our people are also supported to help the community, with paid absence available for staff choosing to volunteer. In 2022 the Company refreshed its Volunteering policy and set a target of achieving 200 volunteer days across the business.

The Board has allocated responsibility for managing Climate Change financial risks to its Chief Underwriting Officer. In recognition that Ageas UK supports Environmental Societal and Governance (ESG) priorities an ESG Strategy was approved by the Ageas UK Boards which seeks to ensure ESG considerations are integral to the way that we work, including, ESG learning for employees, the development of sustainable products, ensuring sustainable investments and supporting a reduction in greenhouse gas emissions. The ESG Strategy and supporting targets, also aims to support a transition to a low carbon economy and Ageas UK’s carbon neutral ambitions, with regular updates on progress provided by the Chief Underwriting to the Boards throughout the year. During 2022 to support the ESG strategy a Board approved Sustainability Report was published on the Company’s website and a Board focus session on ESG held.

Community and Environment (continued)

Following the implementation of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Reporting) Regulations 2018 (the Regulations), which resulted in additional disclosures for quoted companies and new disclosures for all large unquoted companies and large LLPs, the Company is required to disclose its energy and carbon emissions in the year. The following table shows the Company's energy use and associated greenhouse gas emissions:

	2022	2021
Energy consumption used to calculate emissions - kWh	1,151,500	2,363,000
Total gross emissions in metric tonnes of Carbon Dioxide Equivalent ('tCO2e')	310.4	414.0
Intensity matrix	0.16	0.21

The energy consumption and associated greenhouse gas emissions reported for 2021 have been restated due to a revised methodology following the release of the Ageas UK Sustainability Report.

UK energy use covers the Company's consumption of electricity and gas across all office sites, together with energy consumed through reimbursed company mileage and pool cars. Total emissions have been calculated using the latest applicable UK Government emission conversion factors for greenhouse gas reporting.

All emissions are from the UK.

The Company is required to calculate and disclose an intensity matrix. The intensity matrix has been calculated as the tCO2e per employee.

Regulatory

The Company and the Ageas UK Boards maintain an open and constructive dialogue with the PRA and FCA alongside the provision of required reports, for example in relation to Solvency II and through regular supervisory meetings. Throughout 2022 we maintained regular contact with the PRA and FCA, including in relation to the submission of the first pricing attestation provided to the FCA by the Chief Underwriting Officer following the implementation of the Fair Pricing Practices, our response to the cost of living crisis, and as part of the 2023 reinsurance placement.

Donations

No political donations (2021: £nil) were made during the year. The Company made charitable donations of £122,850 in the year (2021: £10,602).

Disclosure of information to auditor

Each of the persons who are directors at the date of approval of this report confirm that, so far as each director is aware, there is no relevant audit information of which the Company's auditor are unaware; and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Independent Auditors

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

This report was approved by the Board of Directors on 31 March 2023 and signed on behalf of the board by:

Jonathan Price
Chief Financial Officer

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK adopted international accounting standards and the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Ageas Insurance Limited

Company registration number: 354568

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Gross written premiums	4	1,078.4	1,208.3
Change in the gross provision for unearned premiums	4	81.5	26.6
Gross insurance premium revenue		1,159.9	1,234.9
Written premiums ceded to reinsurers	4	(483.4)	(544.9)
Reinsurers' share of change in the provision for unearned premiums	4	(32.1)	(10.7)
Net insurance premium revenue		644.4	679.3
Commission income	5	152.3	169.7
Investment income	6	19.9	38.1
Other operating income	7	4.0	3.6
Net income		820.6	890.7
Claims and benefits incurred	8	(814.3)	(748.6)
Reinsurers' share of claims and benefits incurred	9	328.6	307.2
Net policyholder claims and benefits incurred		(485.7)	(441.4)
Acquisition costs	10, 20	(276.5)	(315.5)
Administration costs	12	(86.7)	(85.5)
Operating profit before finance costs and non-recurring administrative expenses		(28.3)	48.3
Finance costs	13	(6.5)	(4.9)
Profit on sale of line of business	11	52.5	-
Non-recurring administrative expenses	14	-	(6.3)
Profit before tax		17.7	37.1
Income taxes	15	(3.1)	(1.2)
Profit for the year		14.6	35.9
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit pension scheme	36	(19.8)	29.0
Related tax	15	6.9	(11.0)
		(12.9)	18.0
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	22	(82.6)	(38.2)
Available-for-sale financial assets - reclassified to profit or loss	6, 22	-	(4.5)
Related tax	15	18.8	8.1
		(63.8)	(34.6)
Other comprehensive income, net of tax		(76.7)	(16.6)
Total comprehensive income		(62.1)	19.3

The notes on pages 19 to 86 form an integral part of these financial statements.

Ageas Insurance Limited
Company registration number: 354568

Statement of financial position

As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Investment in group undertaking	16	-	-
Investment property	17	18.8	19.1
Property, plant and equipment	18	39.9	41.6
Intangible assets	19	33.0	15.3
Employee benefits	36	29.4	48.3
Deferred acquisition costs	20	110.4	139.2
Deferred tax assets	21	53.2	36.1
Financial assets	22	1,078.3	1,255.5
Reinsurance assets	25	1,011.3	1,028.3
Current tax assets	29	2.9	2.0
Insurance and other receivables	23	365.7	384.9
Cash and cash equivalents	24	100.6	101.0
Total assets		2,843.5	3,071.3
Shareholders' equity			
Share capital	32	277.8	277.8
Share premium		3.9	3.9
Retained earnings		154.6	229.3
Fair value reserve		(52.7)	11.1
Total shareholders' equity		383.6	522.1
Liabilities			
Insurance contract provisions	25	2,146.3	2,189.0
Financial liabilities:			
- Loans and borrowings from group companies	26	119.5	119.4
- Other	27	5.4	5.1
Other provisions	28	19.9	19.8
Deferred tax liability	21	10.3	16.9
Reinsurance payables	30	2.5	6.6
Insurance payables, other payables and deferred income	31	156.0	192.4
Total liabilities		2,459.9	2,549.2
Total equity and liabilities		2,843.5	3,071.3

The statement of financial position is presented in order of liquidity in accordance with IAS 1 Presentation of Financial Statements.

The notes on pages 19 to 86 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2023 and were signed on its behalf by:

Jonathan Price
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December 2022

				Other reserves		
	Note	Share capital £m	Share premium £m	Retained earnings £m	Fair value reserve £m	Total £m
Balance at 1 January 2021	32	277.8	3.9	207.8	45.7	535.2
Profit for the year		-	-	35.9	-	35.9
Other comprehensive income/(expense)	36, 22	-	-	18.0	(34.6)	(16.6)
Total comprehensive income		-	-	53.9	(34.6)	19.3
Dividend paid	32	-	-	(32.4)	-	(32.4)
Balance at 31 December 2021	32	277.8	3.9	229.3	11.1	522.1
Balance at 1 January 2022	32	277.8	3.9	229.3	11.1	522.1
Profit for the year		-	-	14.6	-	14.6
Other comprehensive expense	36, 22	-	-	(12.9)	(63.8)	(76.7)
Total comprehensive income		-	-	1.7	(63.8)	(62.1)
Dividend paid	32	-	-	(76.4)	-	(76.4)
Balance at 31 December 2022	32	277.8	3.9	154.6	(52.7)	383.6

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised. Taxation is provided on the net change at the prevailing rates when the changes are booked.

Retained earnings include the defined benefit pension scheme remeasurements.

The notes on pages 19 to 86 form an integral part of these financial statements.

Ageas Insurance Limited

Company registration number: 354568

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from/(used in) operating activities			
Profit before tax		17.7	37.1
Adjustments for:			
Investment income	6	(19.9)	(38.1)
Finance costs	13	6.5	4.9
Defined benefit pension expense	36	(0.4)	(0.2)
Depreciation of investment property	12, 17	0.3	0.3
Depreciation of property, plant and equipment	12, 18	3.3	3.5
Amortisation of intangible assets	12, 19	1.9	1.7
Profit on sale of line of business	11	(52.5)	-
Loss on disposal of property, plant and equipment	18	-	0.1
Change in deferred acquisition costs	20	28.8	5.1
Operating profit before working capital changes		(14.3)	14.4
Decrease/(increase) in financial assets	22	82.6	(17.9)
(Increase) in reinsurance assets	23	17.0	(5.1)
Decrease/(increase) in insurance and other receivables	23	19.2	10.0
(Decrease)/increase in insurance contract provisions, insurance payables, other payables and deferred income	25, 31	(80.0)	11.9
Increase/(decrease) in reinsurance payables	30	(4.1)	1.4
Increase/(decrease) in financial liabilities		0.4	(0.8)
(Decrease)/increase in provisions	28	0.1	(1.9)
Cash flows generated from/(used in) operations		20.9	12.0
Defined benefit contributions paid	36	(0.4)	-
Interest received		35.6	35.0
Income tax paid		(2.5)	(3.0)
Income taxes received		0.5	-
Net cash flows generated from/(used in) operating activities		54.1	44.0
Cash flows used in investing activities			
Proceeds from sale of line of business	11	49.1	-
Purchase of intangible assets	19	(19.6)	(4.9)
Purchase of property, plant and equipment	18	(1.6)	(2.1)
Net cash used in investing activities		27.9	(7.0)
Cash flows used in financing activities			
Dividends paid	32	(76.4)	(32.4)
Repayment of lease liabilities	27	(0.7)	(1.1)
Repayment of subordinated debt liability	26	-	-
Interest paid		(5.6)	(4.7)
Net cash used in financing activities		(82.7)	(38.2)
Net change in cash and cash equivalents		(0.4)	(1.2)
Cash and cash equivalents at 1 January		101.0	102.2
Cash and cash equivalents at 31 December		100.6	101.0
Cash available to the Company		100.6	99.6
Cash not available to the Company - held in trust		(0.0)	1.4
	24	100.6	101.0

The notes on pages 19 to 86 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Ageas Insurance Limited is a private company, limited by shares, domiciled and incorporated in England. The Company is primarily involved in personal lines insurance.

(a) Statement of compliance

The financial statements were approved for issue by the Board of Directors on 31 March 2023.

The financial statements have been prepared in accordance with UK adopted international accounting standards and the requirements of the Companies Act 2006.

In accordance with IFRS 8, the Company is not required to present segmental information as the equity of the Company is not publicly traded.

(b) Basis of preparation

The Company has elected not to prepare consolidated financial statements. The financial statements as prepared are separate financial statements and the exemption from consolidation has been based on the provisions of CA 2006 s401(2). Consolidated financial statements including the results of the Company are prepared by the ultimate holding company, ageas SA/NV, a company incorporated in Belgium, and copies can be obtained from the Company Secretary, Markiesstraat 1 Box 7, 1000 Brussels.

The financial performance and position of the Company, its cash flows, liquidity position and borrowings are set out in the primary statements on pages 15 to 18, and in the subsequent notes on pages 19 to 86. Further analysis of the objectives and policies for mitigating risk can be found within note 3.

Having considered the position of the Company as above, the approved budget for the next 12 months from the approval date of these financial statements and reviewing the potential risks to the Company, the directors have concluded that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

The Company presents its statement of financial position in order of liquidity in accordance with IAS 1 Presentation of Financial Statements. For each asset and liability line item in the statement of financial position that details amounts expected to be recovered or settled within twelve months, or more than twelve months after the statement of financial position date, a classification at the statement of financial position date is included within the notes. The disclosures in the notes for these classifications are distinguished as follows:

- amounts expected to be settled in less than one year are referred to as current; and
- amounts expected to be settled in more than one year are referred to as non-current.

(i) Basis of measurement
The financial statements have been prepared on the historical cost basis with the exception of financial instruments classified as available-for-sale and fair value through profit or loss, which are stated at their fair value.

(ii) Functional and presentation currency
The financial statements are presented in millions of Pounds Sterling, which is the Company's functional currency. All financial information presented in millions of Pounds Sterling has been rounded to one decimal place.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements
The preparation of financial statements in conformity with international accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These form the basis of judgements concerning carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by the directors in the application of international accounting standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the following year, are discussed in notes 2 and 3.

All new standards and interpretations released by the UK Endorsement Board have been considered. The following new and amended standards that came into effect in the year have been adopted by the Company during the period as appropriate:

- IAS 37 amendments: Cost of fulfilling a contract
- Annual improvements to IFRS standards 2018-2020
- IAS 16 amendments: Proceeds before intended use
- IFRS 3 amendments: Reference to the Conceptual Framework

In addition, the following is a list of standards that are in issue but are not effective in 2022, together with the effective date of application to the Company. All standards have been endorsed by the UK Endorsement Board:

- IAS 1 amendments: Presentation of Financial Statements: Disclosure of Accounting Policies – January 2023
- IFRS 17: Insurance contracts – January 2023.
- IFRS 17 amendments – Initial application of IFRS 17 and IFRS 9 – comparative information – January 2023
- IAS 8 amendments: Definition of accounting estimate – January 2023.
- IAS 12 amendments – Deferred Tax related to assets and liabilities arising from a single transaction – January 2023.
- IAS 1 amendments – Classification of liabilities as current or non-current – January 2024.
- IFRS 16 amendments – Lease liability in a sale and leaseback – January 2024.
- IAS 1 amendments – Non-current liabilities with covenants – January 2024.

The standards effective from 2023 have been reviewed and IFRS 17: Insurance Contracts is expected to have a material impact on the Company, as described below. The implications of the remaining standards are under review.

The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

IFRS 17: Insurance contracts
IFRS 17 replaces IFRS 4: Insurance Contracts ('IFRS 4') for annual periods commencing on or after 1 January 2023, which is also the date of initial application of IFRS 17 for the Company. The adoption of IFRS 17 did not change the classification of the Company's insurance contracts.

<u>Scope</u>

IFRS 17 'Insurance contracts' applies to:
- Insurance contracts, including reinsurance contracts issued;
- Reinsurance contracts held; and
- Investment contracts with discretionary participation features issued. These are in the scope of IFRS 17 only if the issuer also issues insurance contracts.

All references below to 'insurance contracts' equally apply to reinsurance contracts (both reinsurance contracts held and reinsurance contracts issued) and investment contracts with discretionary participation features ('DPF'), unless stated otherwise.

<u>Level of aggregation</u>

For measurement purposes, the Company identifies portfolios of contracts which are divided into underwriting year to ensure that contracts within each group are not issued more than one year apart. A portfolio of insurance contracts includes contracts that are subject to similar risk and that are managed together. The Company further divides portfolios of insurance contracts into groups of insurance contracts, based on the underlying profitability of the contract, as follows:
- a group of insurance contracts that are onerous at initial recognition, if any,
- a group of insurance contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining insurance contracts, if any.

<u>Recognition – insurance contracts</u>

The Company recognises groups of insurance contracts issued on its statement of financial position from the earliest of:
- the beginning of their coverage period,
- the date when the first payment from a policyholder in the group becomes due, or, when there is no due date, when the first payment from the policyholder is received; and
- when facts and circumstances indicate that the group of insurance contracts becomes onerous.

A substantive obligation to provide coverage or other services ends when:
- The insurance company has the practical ability to reassess the risks of a policy holder and can set a price or level of benefits that fully reflects those risks.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

Recognition- reinsurance contracts

Reinsurance cash flows are recognised at a date depending on their circumstances:
- Proportionate (underlying contract not onerous) - Later of start date of underlying group of contracts and start of coverage period of RI contracts.
- Non-proportionate (underlying contract not onerous) - Beginning of coverage period of group of reinsurance contracts.
- Underlying onerous contract - The date the onerous group of contracts is recognised.

A right to receive service ends when the reinsurer:
- Has the practical ability to reassess the risk transferred to it; and
- Can set a price or level of benefits for the contract that fully reflects the reassessed risk.

Changes to measurement

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

Under IFRS 17 the measurement of the insurance liability, which comprises both the Liability for Incurred Claims ("LIC") and the Liability for Remaining Coverage ('LRC'), is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk.

A top-down approach (aligned to Pillar II Solvency II reporting) is used by the Company to derive the discount rate. The Company has elected to recognise the changes to the discount rate in OCI (rather than in the Income Statement).

The risk adjustment for non-financial risk reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of the group of insurance contracts that arise from non-financial risk. It covers insurance risk and other non-financial risks, such as lapse and expense risk.

The risk adjustment for non-financial risk is calculated using a confidence level approach, targeting the 75th percentile in line with the Company's risk appetite. Subject to appropriate management level approval, the risk adjustment should include an allowance to adequately reflect emerging risks and uncertainties.

Premium Allocation Approach

The Company's insurance contracts issued and reinsurance contracts held are measured by applying the Premium Allocation Approach ('PAA') as the PAA can be applied to short term duration contracts and to longer duration contracts that meet the PAA eligibility. The PAA is a policy choice if the eligibility criteria are met, and it simplifies the measurement of the LRC and provides other policy choices that are not available under the general measurement approach ('GMM').

Under the PAA, the LRC reflects premiums received less amounts recognised in revenue for insurance services provided. If facts and circumstances indicate that a group of contracts may be onerous, the LRC is measured using GMM principles and losses for onerous contracts are recognised immediately in the income statement.

In applying the PAA, the Company has elected to make the following policy choices:

- the Company expenses its insurance acquisition cash flows immediately. No separate asset is recognised for deferred acquisition costs.
- the LRC is not discounted for the time value of money because the contracts coverage is less than a year,.
- the election to not discount LIC cashflows expected to be settled within 12 months has been taken.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

Changes to presentation and disclosure in the statement of financial position

For presentation in the statement of financial position, the Company will aggregate insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately:

- groups of insurance and reinsurance contracts issued that are assets,
- groups of insurance and reinsurance contracts issued that are liabilities,
- groups of reinsurance contracts held that are assets; and
- groups of reinsurance contracts held that are liabilities.

Recognition and presentation in the income statement

The Company will present insurance service results (comprising insurance revenue less insurance service expenses) separately from insurance finance income and expenses. The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of insurance contract services provided during the reporting period. Reinsurance contracts will be presented separately.

Transition

At the transition date of 1 January 2023, the Company has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied, derecognised any existing balances that would not exist had IFRS 17 always applied and recognised any resulting net difference in opening equity.

In some situations, the Company was not able to measure a group of insurance contracts at the transition date applying the full retrospective approach, for example when:

- the information in the existing reporting systems of the Company about historical cash flows is based on assumptions that were developed using hindsight; or
- some reasonable and supportable information about historical cash flows is not available in the existing reporting systems of the Company, or only available at a higher or at different levels of aggregation than the requirement on grouping of contracts under IFRS 17.

In these instances, those groups of insurance contracts were measured applying the ‘modified retrospective approach’. The objective of those alternative transition measurement approaches is to achieve the closest outcome possible to the full retrospective approach, using reasonable and supportable information that is available without undue cost or effort at the transition date.

At the transition date, the Company applied the full retrospective approach to measure the LRC of groups of insurance contracts in its non-life business. The LIC of those groups of insurance contracts has been measured applying the full retrospective approach for the most recent accident years and the modified retrospective approach for claims prior to 2016.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

Impact assessment

The estimated impact of the adoption of IFRS 17 by the Company at the transition date (i.e. 1 January 2023) is clarified below.

The Company has materially prepared its opening balance sheet under IFRS 9 and IFRS 17 on 1 January 2022 and has performed parallel runs for the year ended 31 December 2022.

Compared to the amounts recognised in the statement of financial position of the Company on 1 January 2022 applying the standards IAS 39 & IFRS 4, the adoption of IFRS 9 and IFRS 17 by the Company resulted in:
- An increase in the total assets (£68m),
- An increase in the total liabilities (£142m); and
- A decrease in total equity (£74m).

The increase in total assets primarily relates to the remeasurement of insurance and reinsurance cashflows under IFRS 17, offset by the derecognition of any amounts that were recognised under IFRS 4 for deferred acquisition costs (‘DAC’). The amounts relating to DAC have been derecognised at the transition date to IFRS 17, reflecting the Company’s accounting policy choice to expense insurance acquisition costs as incurred in its non-life business measured applying the PAA.

The increase in total liabilities mainly relates to the remeasurement of insurance contracts and reinsurance contracts under IFRS 17.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Company elected, under the amendments to IFRS 4, to apply the temporary exemption from IFRS 9 on the basis that the percentage of its liabilities connected with insurance relative to the total amount of liabilities is greater than 90%. The initial application date of IFRS 9 has therefore been aligned with the effective date of IFRS 17 for periods beginning on or after 1 January 2023.

The nature of the changes in accounting policies under IFRS 9 can be summarised, as follows:

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories for financial assets of fair value through profit or loss, available for sale, held-to-maturity and loans and receivables at amortised cost will be replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (not used by the Company); and
- Debt instruments at amortised cost.

Changes to the impairment calculation

Under IAS 39, the Company assessed at each reporting date whether there was any objective evidence that a financial asset was impaired. A financial asset was considered to be impaired if objective evidence indicated that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset was calculated by reference to its fair value. Individually significant financial assets were tested for impairment on a stand-alone basis. The remaining financial assets were assessed collectively in groups that share similar credit risk characteristics.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

Following the adoption of IFRS 9 from 1 January 2023, the Company will adopt a forward looking 'expected credit loss' ('ECL') model.

The Company will measure loss allowances on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company is required to disclose information to enable users of financial statements to understand how the Company qualifies for the temporary exemption from IFRS 9 and compare entities that apply the temporary exemption from IFRS 9 with entities that do not.

The following table discloses the fair value at the end of the reporting year and the amount of change in the fair value during that period for specific groups of financial assets, analysed between financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amounts outstanding, and all other financial assets:

	Available-for-sale financial assets £m	Loans and receivables £m	Financial assets designated as fair value through profit or loss £m	Derivative financial instruments £m	Cash and cash equivalents £m	Total £m
As at 31 December 2021:						
Solely payments of principal and interest	1,117.2	414.8	-	-	-	1,532.0
All other financial assets	-	-	108.1	0.3	101.0	209.4
Total	1,117.2	414.8	108.1	0.3	101.0	1,741.4
Change in fair value in the year:						
Solely payments of principal and interest	(200.5)	(21.5)	-	-	-	(222.0)
All other financial assets	-	-	25.9	(1.4)	(0.4)	24.1
Total	(200.5)	(21.5)	25.9	(1.4)	(0.4)	(297.9)
As at 31 December 2022:						
Solely payments of principal and interest	916.7	393.3	-	-	-	1,310.0
All other financial assets	-	-	134.0	(1.1)	100.6	233.5
Total	916.7	393.3	134.0	(1.1)	100.6	1,543.5

Loans and receivables comprise insurance and other receivables (note 23) and real estate debt (note 22 (b)).

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements (continued)

The following table highlights the credit risk exposure, including significant credit risk concentrations, inherent in financial assets which meet the SPPI test as at 31 December 2022:

	Gross carrying amount applying IAS 39	Loss allowance is measured: At an amount equal to 12-month expected credit losses ('ECL')	At an amount equal to lifetime ECL: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets	At an amount equal to lifetime ECL: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)	At an amount equal to lifetime ECL: Trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with IFRS 9 (paragraph 5.5.15)	Purchased or originated credit-impaired financial assets
	£m	£m	£m	£m	£m	£m
AAA	204.5	204.5	-	-	-	-
AA	168.7	168.7	-	-	-	-
A	366.2	366.2	-	-	-	-
BBB	177.3	177.3	-	-	-	-
Total investment grade	916.7	916.7	-	-	-	-
Below investment grade	-	-	-	-	-	-
Unrated	102.6	102.6	-	-	-	-
Total	1,019.3	1,019.3	-	-	-	-

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the other party are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire.

(d) Recognition and measurement of premium revenue

(i) Premiums

Gross written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes. Written premiums include adjustments to premiums written in prior accounting periods and estimates for “pipeline” premiums. An estimate is made at the statement of financial position date to recognise retrospective adjustments to premiums or commissions. Pipeline premiums are brought into account, based upon the pattern of booking of renewals and new business. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

Notes to the financial statements

1 Accounting policies (continued)

(d) Recognition and measurement of premium revenue (continued)

(ii) Unearned premiums provision

The provision for unearned premiums comprises the proportion of gross written premiums which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(e) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the statement of profit or loss and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(f) Commission income

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company once the performance obligations have been fulfilled. Reinsurance commissions are deferred and amortised on a pro rata basis over the contract term.

(g) Investment income

Investment income comprises interest income, dividend income, investment property income, net realised gains on available-for-sale financial assets and net unrealised gains on financial assets designated as fair value through profit or loss. Interest income is recognised as it accrues in the statement of profit or loss, using the effective interest method. Dividend income is recognised in the statement of profit or loss on the date that the Company’s right to receive payment is established.

Notes to the financial statements

1 Accounting policies (continued)

(h) Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims.

Outstanding claims comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not, and related internal and external claims handling expenses. Outstanding claims are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Claims liabilities are not discounted except for those relating to periodic payment orders ('PPOs'). Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are presented separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of outstanding claims established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(i) Liability adequacy test (Unexpired risk provision)

Provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately after performing Liability Adequacy Tests by reference to classes of business which are managed together, after taking into account the relevant investment return.

(j) Acquisition costs

Commission payable to agents and internally generated acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred.

Such deferred acquisition costs are finite and are amortised by reference to the period over which the related premiums are earned which is generally one year or less.

(k) Operating expenses

Operating expenses are allocated to one of three types. Those relating to claims handling are included in claims incurred, those that are acquisition related are included within acquisition costs whilst all others are categorised as administration costs. Payroll costs are recharged to fellow group companies for any employees seconded to them. Payments made for leases which are short-term in nature or low value are recognised in the statement of profit and loss. All expenses are accounted for on an accruals basis.

Notes to the financial statements

1 Accounting policies (continued)

(l) Employee benefits

(i) Defined contribution pension plans
A defined contribution pension plan is a post-employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit pension plans
A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, discounting that benefit to determine its present value, and deducting the fair value of any plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability/asset, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are immediately recognised in other comprehensive income. The Company determines the net interest expense/(income) on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset at that time, taking into account any changes in the net defined benefit liability/asset during the period from contributions and benefit payments. Net interest expense and other expenses related to the defined benefit pension scheme are recognised in the statement of profit or loss.

Where the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan with deferred taxation being recognised at the rate relevant to the expected form of recovery. Consideration is also given to any applicable minimum funding requirements.

(m) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and interest in respect of lease liabilities, both of which are expensed in the statement of profit or loss in the period to which they relate.

(n) Income tax

Income tax in the statement of profit or loss and other comprehensive income for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements

1 Accounting policies (continued)

(n) Income tax (continued)

Deferred tax is provided in full, using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill not deductible for tax purposes,
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the presentational currency (pounds sterling) at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising on translation are recognised in the statement of profit or loss. The foreign exchange differences arise from the translation of both opening claims reserves and financial instruments from their functional currency.

(p) Investment in subsidiary

Investments in group subsidiaries are stated at the lower of cost and net realisable value.

Notes to the financial statements

1 Accounting policies (continued)

(q) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation (see below) and impairment losses (see accounting policy (w)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition of qualifying assets are recognised as part of the cost of those assets in the statement of financial position.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of profit or loss during the financial year in which they are incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases under which the Company is a lessee are recognised as a right-of-use asset and measured at the amount equal to the present value of the minimum lease payments, adjusted by the amount of any prepaid or accrued lease payments relating to that lease, plus any dilapidation provision required. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by any impairment and adjusted for certain remeasurements of the lease liability. Low value and short-term leases are not recognised in the Company's statement of financial position as payments made under such leases are recorded in the statement of profit or loss in the year in which they are incurred.

(iii) Depreciation
Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful lives of assets are as follows:

Buildings	Fifty years
Equipment and motor vehicles	Two to ten years
IT equipment	Two to five years
Right-of-use assets	Lease term

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the statement of profit or loss.

Notes to the financial statements

1 Accounting policies (continued)

(r) Intangible assets

An intangible asset is defined as an identifiable non-monetary asset without physical substance. Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses (see accounting policy (w)). Cost is defined as purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use.

An internally-generated intangible asset is recognised if, and only if, all of the following conditions have been demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above until the point at which the intangible asset is in the condition necessary for it to be capable of operating in the manner intended by management. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of each intangible asset.

The estimated useful lives are as follows:

Software and licences	Three to ten years

(s) Investment property

(i) Owned assets
Investment properties are recognised, using the cost model, at cost (or deemed cost) less accumulated depreciation and impairment losses (see accounting policy (w)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

(ii) Depreciation
Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property.

The estimated useful lives of buildings are fifty years. Land is not depreciated.

Notes to the financial statements

1 Accounting policies (continued)

(t) Financial assets

(i) Available-for-sale financial assets

The Company has a number of debt securities which are held as available-for-sale. Available-for-sale financial assets are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of available-for-sale financial assets are recognised on the trade date, which is when the Company commits to purchase the instrument.

The fair value of quoted investments is their quoted bid price at the statement of financial position date.

Realised gains and losses are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised through other comprehensive income are recognised in profit or loss. Where these investments are interest-bearing, interest is calculated using the effective interest method and is recognised in the statement of profit or loss.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Company classifies cash, short term deposits, insurance and other receivables, including amounts due from related companies and infrastructure debt as loans and receivables. The directors have determined that their carrying amounts reasonably approximate their fair values as they are mostly short term in nature or are repriced frequently.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Derivative financial instruments

The Company holds derivative financial instruments to manage exchange risk exposure from its foreign currency denominated net financial assets. Derivatives are recognised initially at fair value with any attributable transaction costs recognised in profit or loss as incurred. After initial recognition derivatives are measured at fair value and changes are recognised in profit or loss. The fair value reflects the estimated amount the Company would receive or pay in an arms' length transaction. The amount is determined based on observable exchange rates.

Notes to the financial statements

1 Accounting policies (continued)

(t) Financial assets (continued)

(iv) Fair value through profit or loss

The Company invests in financial assets which are designated as fair value through profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred. After initial recognition financial assets at fair value through profit or loss are measured at fair value and any changes therein, including any interest or dividend income, are recognised in profit or loss. Any sales or purchases are accounted for at the trade date.

IAS 39 permits entities to designate, at the time of acquisition or issuance, any financial asset or financial liability to be measured at fair value, with value changes recognised in profit or loss. This option is available even if the financial asset or financial liability would ordinarily, by its nature, be measured at amortised cost. They are not 'held for trading'.

The use of the fair value option is restricted to those financial instruments that meet certain conditions:

- the fair value option designation eliminates or significantly reduces an accounting mismatch, or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis by the entity's management.

It is the second of these criteria which determines the Company's designation of financial assets as fair value through profit or loss.

(v) Committed funds

Investments made by the Company but not yet allocated to underlying funds are stated at cost within other receivables.

(u) Other receivables

Other receivables are stated at their cost less impairment losses (see accounting policy (w)).

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and money market funds. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

(w) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on a stand alone basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Notes to the financial statements

1 Accounting policies (continued)

(w) Impairment (continued)

(i) Financial assets (continued)

All impairment losses are recognised in the statement of profit or loss. When an available for sale financial asset is considered to be impaired, cumulative gains or losses recognised previously in other comprehensive income are reclassified to the statement of profit or loss in the period. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(ii) Non-financial assets

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(x) Financial liabilities

Financial liabilities include payables to related parties, lease liabilities, interest-bearing loans and borrowings and bank overdrafts and other payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

The directors have determined that the carrying amounts of bank overdrafts and other payables reasonably approximate their fair values because these liabilities are typically either short term in nature or are repriced frequently. The subordinated debt is held at amortised cost and the directors have determined that the carrying value of the subordinated debt approximates the fair value.

Notes to the financial statements

1 Accounting policies (continued)

(y) Derecognition and offset of financial assets and liabilities

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

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

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

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

(z) Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of ordinary and deferred shares and share options are recognised as a deduction from equity, net of any tax effects.

(aa) Dividends

Dividends payable on ordinary shares are recognised when they are approved by the Board.

(ab) Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

2 Accounting estimates and judgements

The most critical judgements and estimates made by the Company are those regarding reported and unreported claims, defined benefit pension obligations and deferred tax assets.

Outstanding claims and provisions

The Company establishes reserves in respect of the anticipated losses incurred in respect of business it has written. These reserves reflect the expected ultimate cost of settling claims occurring prior to the statement of financial position date, but remaining unsettled at that time, and take into account any related reinsurance recoveries. Such reserves are established separately for each line of business written by the Company and fall into two categories – reserves for reported claims and reserves for losses incurred but not reported ('IBNR') as of the statement of financial position date.

Reserves for reported claims are established on a case-by-case basis and are based largely on past experience of settlements on similar claims. These reserves are set on an undiscounted basis (except for PPOs) and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, including changes in the law and changes in costs relating to settlement.

Reserves for claims incurred but not reported as of the statement of financial position date are also established on an undiscounted basis, except for PPOs. They are estimated based on historical data using various actuarial techniques and statistical modeling methodologies. Reserves for claims incurred but not reported are calculated separately for each line of business written and take into account trends in settlement costs in arriving at the final estimates.

The personal injury discount rate (‘Ogden rate’) is set by the Ministry of Justice. It is used by the courts to calculate lump sum personal injury payments and is based on a reference investment portfolio. Reserves have been assessed at the current Ogden rate of minus 0.25%.

For further details on outstanding claims see note 25.

Notes to the financial statements

2 Accounting estimates and judgements (continued)

Defined benefit pension obligations

The Company’s liability for defined benefit pension obligations is based on various estimates including discount rates, future salary increases, future pension increases, mortality rates and future staff turnover. Differences in future actual experience may result in the balance recorded in the Company’s statement of financial position ultimately proving to be either too high or too low. Such differences will be accounted for as they arise.

For further details on defined benefit pension obligations see note 35.

Deferred tax assets

The Company has unutilised tax losses which it acquired from Groupama Insurance Company Limited (‘GICL’) (renamed GICL 2013 Limited) (now dissolved) under the Part VII Scheme of the Financial Services and Markets Act 2000 on 1 October 2013. These can be carried forward to offset income tax liabilities arising on taxable profits of the Company. These losses were supplemented in 2016 by an additional loss due to the change in the Ogden rate. The Company must judge the extent that future taxable profits will arise such that any deferred tax asset is based on profits that are more likely to arise than not based on tax rates that have been substantively enacted at the statement of financial position date. The Company has calculated the deferred tax asset based on the Company's budgets and forecasts, adjusting for any material known tax differences that will arise in that period.

For further details on deferred tax assets see note 21.

3 Risk management

Objectives and policies for mitigating business risk

The Company's primary activity, the acceptance of risk of loss from individuals or businesses, exposes it to a number of risks which may adversely affect the Company's ability to meet its business objectives. The Company has identified the following risk areas: insurance, regulation, market, credit, liquidity, operational, sustainability and climate change, pension and capital management.

The Company has various procedures in place to manage these exposures. These procedures have been embedded into decision making processes and the culture of the business. They include an overall risk management framework together with a set of clearly defined risk policies which articulate the Company’s risk appetite. The Company also maintains a comprehensive risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. The risk framework includes an event notification procedure which enables focus on preventing a similar incident occurring in addition to managing the impact of the event, thereby ensuring a proactive control environment.

The Ageas UK Board Risk Committee established by the Boards of the Company, Ageas (UK) Limited, Ageas Retail Limited and Ageas Services (UK) Limited meets regularly to review both the risk policies and the risk register, to ensure they are up-to-date, reflecting the risks currently facing the business and that corresponding control issues and risk mitigation actions are being addressed in a timely manner. The findings of the Board Risk Committee are reported to the Boards.

3 Risk management (continued)

(a) Insurance risk (continued)

The Company assumes insurance risk by issuing contracts of insurance to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurred. The risk under any one insurance contract is the possibility that the insured event occurred and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is uncertain and therefore unpredictable. The classification of insurance risks are underwriting, claims reserving, claims management and reinsurance.

(i) Underwriting risk

Underwriting risk occurs when the underwriter binds a policy at a given price and obliges the Company to pay claims under certain specified conditions, thus exposing the Company to the risk that the policy was not priced correctly due to underestimating the frequency and/or severity of the claims. Underwriting risk is at the core of the Company's business and is a major source of exposure for the Company's capital. The systems and controls required to manage and control this area of risk are therefore of critical importance.

The Company's business lines are generally characterised by large numbers of policyholders with homogeneous exposures, such as motor, household, travel and small commercial lines. The approach to pricing these products is based on the Company's knowledge and the price is given to the market not to individuals. Therefore underwriting is tightly controlled. The main technique to determine the price to be charged is to use past exposures, historical losses (plus an appropriate IBNR allowance) and external data sources as a basis for developing proposed premiums. Appropriate adjustments are made to reflect anticipated future conditions, expenses and the required profit margin. The performance of each business line is constantly monitored to identify new trends caused by distribution and cause or value of loss so that corrective pricing action can be implemented.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company's largest reinsurance arrangement is in respect of a 40% loss portfolio transfer agreement and quota share treaty with ageas SA/NV, the ultimate holding company, of both prior and future claim liabilities respectively. The Company also buys excess of loss (i.e. non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Company's risk appetite. In addition, the Company will buy facultative reinsurance on individual risks in certain specified circumstances. There are also occasions when other quota share reinsurance or stop loss treaties are put in place as part of a larger overall transaction.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the degree of concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. Concentrations of risk can arise in both high severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration or demographic trend.

High severity, low frequency concentrations

The timing and frequency of high severity events are, by their nature, uncertain. They represent a material risk as the occurrence of such an event would have a significant adverse impact on the Company's cash flows and profitability. The Company manages these risks by making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that reduces the impact of these events. The Company uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

Notes to the financial statements

3 Risk management (continued)

(a) Insurance risk (continued)

(i) Underwriting risk (continued)

Geographic and demographic concentrations
Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Company models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events. Material concentrations of risk may be created by specific distribution channels that target certain age ranges, affinity groups or underwriting strengths in certain geographic locations. These risks are managed through underwriting and use of reinsurance contracts.

Economic downturn
The Company's insurance portfolio exposes it to a potential accumulation of different risks in the event of an economic recession. The Company's strategy in a recession is to ensure that premiums reflect the additional risks and exposures to those areas that could be adversely impacted by an economic downturn. It also monitors economy related claims closely to identify any that may be exaggerated or fraudulent.

Total aggregate exposure
The Company identifies the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures on a regular basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes, and to quantify the net exposure for the Company. Additional stress and scenario tests are run using these models during the year.

Delegated underwriting authorities
The Company has a number of delegated underwriting authorities with third parties. There is a risk that the third party might not have the controls, management information, quality of staff and technical skills to charge an appropriate price for the risk underwritten. Prior to contract the third party is subject to a due diligence process and is subsequently audited on a regular basis to ensure compliance with the contractual obligations and that the required levels of profitability are being achieved.

Third party injury claims
In recent years, the Company and the insurance market in general have experienced an increase in the frequency and value of third party injury claims, arising mainly in the private and commercial motor accounts. These increases have been driven by an increased propensity for the population to be litigious and the extensive activities of companies actively persuading potential victims to instigate claims. The Company has recognised this trend and monitors its development closely, adjusting the prices of its products accordingly.

(ii) Claims reserving risk
The aim of the reserving policy of the Company is to produce estimates of outstanding claims that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims. Reserving and the ultimate cost of claims risk occurs where the Company's estimates of its outstanding claims prove to be insufficient through inaccurate forecasting, additional expenses or reinsurance bad debts. The methods used to estimate the insurance liabilities in respect of outstanding claims and provisions are detailed in note 1 to the financial statements. In addition an external independent actuary undertakes an annual review of large elements of the Company's claims reserves.

Notes to the financial statements

3 Risk management (continued)

(a) Insurance risk (continued)

(iii) Claims management risk
Claims management risk could arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service or excessive costs of handling claims. The Company's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of providing the service that meets those needs. Customer includes both insured as well as others that believe our insured has breached a duty of care. The Company's philosophy is based upon the following principles:

- manufacturing claims – production commences at first notification of a loss where the components to satisfy a customer's claim are taken;
- predicament management – tailoring our service to meet the individual customer's needs; and
- reducing failure demand – failure demand is caused by a failure to do something right for the customer.

These principles support the Company's objectives to:

- create empathy with the customer and to offer processes that successfully deal with the resolution of their individual predicament not just their damaged assets;
- provide claims settlement that treats customers fairly, reflects policy and legal liability and complies fully with all other regulatory requirements;
- exercise control over claims reserves, indemnity claims costs, subrogated recoveries and payments to other parties; and
- exercise control over the expense costs associated with handling and settling claims.

(iv) Reinsurance risk
Reinsurance is placed to reduce the Company's exposure to specific risks, events and accumulations. The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered or because there are gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Company's various reinsurance brokers, and is approved by the Company's Reinsurance Committee and in accordance with the wider reinsurance strategy set by the Company's Board. The failure of a reinsurer to pay a claim is categorised as a credit risk.

(b) Regulatory risk

The Motor and Home insurance markets have undergone substantive change, with new rules for General Insurance pricing following the FCA's Pricing Review coming into effect on 1 January 2022. This has reshaped the market and whilst it should lead to a more stable market in the medium-term, it has made the acquisition of new customers increasingly challenging.

Additionally, the Ogden rate which was last reviewed and revised in 2019 from -0.75% to -0.25% is due for review before August 2024 and, although there is no current indication of imminent revision, it is not currently clear as to what the future direction of change in this rate might be.

3 Risk management (continued)

(c) Market risk

Market risk can be described as the risk of change in the fair value of financial assets due to changes in interest rates, foreign exchange rates and market prices, whether specific to the individual asset or its issuer, or to factors affecting all assets traded in the market.

Interest rate risk
Interest rate risk is the risk that the value of future cash flows of a financial instrument could have fluctuated because of a change in interest rates. The Company's exposure to changes in interest rates is primarily concentrated in its investment portfolio. To mitigate changes in interest rates the Company holds a material proportion of its investments in fixed rate debt securities. It will normally hold these securities until their maturity. This reduces the variation in future cash flows and provides security over future income and redemption values. The market value of fixed interest securities is inversely correlated to movements in interest rates, that is the market value of fixed interest securities rises if interest rates fall and vice versa. The Company regularly monitors its investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Company is able to underwrite or its ability to settle claims as they fall due. The Company's risk is limited to interest rate risk on the £119.5m (2021: £119.4m) subordinated debt it has issued, as the interest rate is based on SONIA.

On 5 November 2021, the Company amended and restated its loan with ageas SA/NV to change the interest rate calculated on its subordinated debt from LIBOR to SONIA. On 11 June 2021, the Company amended and restated its loan facility with ARL to change the interest rate from LIBOR to the Bank of England base rate.

Most insurance contract liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing. PPOs take account of likely increases in payments due to, for example, inflation, and are discounted using a rate of interest based on the same indexing factors.

Foreign exchange risk
The Company is not exposed to material foreign currency risks on assets and liabilities as a result of changes in exchange rates. The majority of the Company's premiums are currently received in Pounds Sterling.

The Company invests in United States dollar ('USD') denominated bonds as well as USD, Euro and Australian dollar ('AUD') denominated infrastructure equity funds and so has foreign currency risk exposure on those assets. The Company holds derivative financial instruments in order to mitigate the exchange risk arising from its foreign currency denominated infrastructure equity funds.

The Company is exposed to current travel policy claims that require settlement in USD and Euros. These are normally settled within a short period from notification of the loss. Purchases of currency are made to cover the estimated requirement for current liabilities.

Debt security price risk
The Company is exposed to changes in the market values of debt securities for reasons other than changes in interest rates. This may be due to the credit rating changes, anticipated future interest rate changes, trading performance or market sentiment relating to the issuer. The Company mitigates this risk by investing in high quality issuers in line with its investment strategy and normally holding debt securities until their maturity.

Property price risk
The Company is exposed to changes in market value due to its investment in property. To mitigate this risk the Company has invested in property funds as well as holding direct investments. Property funds allow investors to achieve greater diversification across multiple types of property and location, and to gain access to the expertise of specialist managers.

Notes to the financial statements

3 Risk management (continued)

(d) Credit risk

Credit risk is the risk that a counterparty will not be able to pay amounts in full when due in accordance with the items of the contract, causing the Company to incur a financial loss. The main sources of credit risk are:

- Investments
- Agents, brokers and intermediaries
- Reinsurance
- Other financial assets

The Company has a Credit Risk Forum that monitors the exposure, rating and accumulation risks. It will make recommendations on actions to reduce risk. The maximum exposure is equal to the carrying amount of those assets.

Investments
The risk is managed within the Company's investment guidelines by the Investment Committee who regularly update the Board. The investments are held in a high quality, fixed income portfolio and are normally held until maturity.

The analysis based on the second highest credit ratings of the available-for-sale portfolio is as follows:

	Note	2022 £m	2022 %	2021 £m	2021 %
AAA		204.5	22.4	193.3	17.3
AA		168.7	18.4	247.7	22.2
A		366.2	39.9	466.3	41.7
BBB		177.3	19.3	209.9	18.8
Total	22	916.7	100.0	1,117.2	100.0

The second highest credit rating is used because it gives a better overall assessment of credit risk by avoiding any rating agency anomalies.

The financial assets designated as fair value through profit or loss do not have a credit rating. The investments are in five property funds and two infrastructure equity funds, both of which are managed by specialist investment managers. Hence, risk is mitigated through this selection.

An analysis of available-for-sale financial assets, financial assets designated as fair value through profit or loss, and other investments is shown in note 22.

Notes to the financial statements

3 Risk management (continued)

(d) Credit risk (continued)

Receivables arising from insurance contracts

The Company trades only through intermediaries who have been subject to a rigorous credit risk assessment and appointment procedure. All intermediaries are authorised and regulated by the FCA (with the exception of those located on the Isle of Man and the Channel Islands). Credit insurance is purchased as part of the credit risk strategy. The levels of debt are regularly monitored and appropriate action is taken in respect of slow and non-payment within the terms of credit. The level of bad debts in the current and prior year was negligible.

Balances due:	Note	2022 £m	2022 %	2021 £m	2021 %
Within terms		214.6	97.4	250.0	97.3
Up to 1 month overdue		3.1	1.4	3.6	1.5
Between 1 and 3 months overdue		1.5	0.7	1.8	0.5
More than 3 months overdue		1.1	0.5	1.2	0.7
Total	23	220.3	100.0	256.6	100.0

Reinsurance

The Company is exposed to credit risk through its reinsurance arrangements, where amounts due under a reinsurance contract may not be paid. The Company manages this risk by only placing reinsurance with reinsurers who are rated A- or above (AM Best or Standard & Poor's), although ratings may subsequently fluctuate after original placement. The only exception to this relates to a small number of proportional treaties where captive reinsurers are used in specific circumstances. Any alternative reinsurance arrangements are required to be agreed by the Company's Board. The ratings of reinsurers are monitored by the Credit Risk Forum.

Other financial assets

The credit risk arising from the other financial assets of the Company - comprising cash and cash equivalents, instalments and other receivables, but excluding related party balances - is from the default of the counterparty. Cash and cash equivalents are predominantly held in money market funds which have a rating of AAA, with the balance held with a counterparty rated A. Default on instalment payments results in the Company cancelling the underlying policy in order to reduce its exposure.

An analysis of insurance and other receivables is shown in note 23.

(e) Liquidity risk

Liquidity risk is the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Company is exposed to liquidity risks arising from daily calls on its cash resources, notably from claims arising on its insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

The liquidity risk needs to be balanced against the aim to match the maturity of financial assets with the estimate of the settlement of insurance liabilities and also optimise the yield on the investment portfolio.

3 Risk management (continued)

(e) Liquidity risk (continued)

The Company manages its liquidity risk by having investment guidelines and maintains sufficient liquidity to be able to realise its financial assets at short notice if required. The Company may also make use of borrowing facilities if required.

There are no significant amounts of insurance payables or reinsurance payables that fall due for payment by the Company other than within one year. Insurance contract provisions include provisions for outstanding claims, a significant element of which are payable after more than one year.

Gross outstanding claims - estimated payment profile		2022	2022	2021	2021
Payment period	Note	£m	%	£m	%
Within 1 year		615.7	37.7	575.6	38.2
Between 1 and 5 years		540.6	33.1	561.2	35.6
Later than 5 years		476.8	29.2	457.5	26.2
Total	25	1,663.1	100.0	1,594.3	100.0

Liquidity risk can also have an impact on the Company's ability to pay interest on and ultimately repay the subordinated debt of £119.5m. Below is a table which discloses the contractual cash flows for both interest and repayment of capital.

On 5 November 2021, the Company amended and restated its loan with ageas SA/NV to change the floating interest rate calculated on its subordinated debt from LIBOR to SONIA. The subordinated debt incurs interest at 3.94% above SONIA per annum, with the SONIA being reviewed quarterly. Prior to this, the subordinated debt incurred interest at 3.85% above LIBOR per annum.

From 2026 the interest rate will increase to 4.94% above SONIA per annum and will remain at this rate until maturity. Accrued interest is payable quarterly. The subordinated debt has a maturity date of 5 November 2046. This has been reflected in this calculation.

Subordinated debt – contractual cash flow		2022	2021
Payment period	Note	£m	£m
Within 1 year		8.1	4.7
Between 1 and 5 years		32.3	18.9
Later than 5 years		281.3	214.4
Total	26	321.7	238.0

Infrastructure equity funds – contractual cash flow

The Company has investments in illiquid securities in line with the Company's liquidity risk appetite. The Company is committed to investing a total of £5.5m (2021: £4.4m) in EUR dominated funds and £2.2m (2021: £17.3m) in USD denominated funds and the investments cannot be redeemed until maturity in 2030.

Notes to the financial statements

3 Risk management (continued)

(e) Liquidity risk (continued)

The amounts disclosed in the following table are the contractual undiscounted cash flows for lease liabilities. Liquidity risk can have an impact on the Company's ability to pay the contractual cashflows as and when they fall due.

Lease liabilities – contractual cash flow		2022	2021
Payment period	Note	£m	£m
Within 1 year		0.9	0.7
Between 1 and 5 years		2.7	3.1
Later than 5 years		1.0	1.8
Total undiscounted cashflows		4.6	5.6
Total discounted cashflows	27	4.3	5.1

(f) Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It is diverse in nature and permeates all business activities but remains a distinct form of risk.

The identification, assessment and evaluation, management, monitoring and reporting of risks rests with business managers. Risks are identified, and regularly assessed; the Board Risk Committee reviews the risks on a regular basis and for those falling outside the Company's risk appetite monitors the remedial action to ensure compliance with the Company's risk appetite.

(g) Sustainability and Climate Change risk

Sustainability risks relate to uncertain environmental, social or governance ('ESG') events which, if they occur, could have a significant impact on Ageas. These risks include the opportunities that may be available to Ageas because of changing environmental or social factors. Environmental risk relates to the quality and functioning of the natural environment and natural systems and our positive contribution towards it, including, for example, biodiversity loss, greenhouse gas emissions, climate change and renewable energy. Social risk relates to the rights, well-being and interests of people and communities, including human rights, labour standards, workplace health and safety, diversity and other elements. Governance relates to the Company's Board structure, size, diversity, skills & independence, as well as executive pay, shareholder rights, disclosure of information, business ethics, bribery and corruption, and internal controls and risk management.

Climate change is a cross-cutting risk with the potential to impact on all areas of the business. There are two widely recognised channels through which climate change risk can manifest:

Physical Risks
The risks that arise from the physical effects of climate change. Physical risks can be broken down into two categories:
• Acute physical risks: those which arise from certain events, especially weather-related events (e.g. floods and storms);
• Chronic physical risks: those which arise from longer-term shifts in climate patterns (e.g. temperature changes, rising sea levels and changing soil moisture).

Notes to the financial statements

3 Risk management (continued)

(g) Sustainability and Climate Change risk

Transition Risks
Financial risks which could arise from the transition to a low-carbon economy (net-zero emissions), including changes in policy risk, legal risk, technology risk, market sentiment risks and reputational risks. These changes will prompt a reassessment of a wide range of asset values, a change in energy prices, and a fall in income and creditworthiness of some borrowers. In turn, this entails potential credit losses for lenders and market losses for investors.

There are also liability (litigation) risks that can arise from people or businesses seeking compensation for losses they may have suffered from the physical or transition risks from climate change outlined above or legal challenges taken to require a course of action. Whilst liability risks were previously identified as a separate channel, they are increasingly considered as a sub-category of physical and transition risks.

The Company has in place a Climate Change Strategy that aims to appropriately integrate climate risk considerations into the business and decision-making. The strategy serves to meet regulatory obligations, including embedding the Company’s approach to managing climate-related financial risks, whilst remaining sufficiently flexible to adapt to evolving regulatory guidance and scientific understanding. Execution of this strategy has continued during the year to fully embed the Company’s approach to managing climate-related financial risks with a number of actions taken to date.

(h) Pension risk

The Company is exposed to a number of risks through the Ageas Insurance Staff Pension Scheme, a defined benefit pension scheme which is closed to new members but within which existing members accrued benefits until 31 December 2020.

Volatility in market conditions
The year end result under IAS 19 accounting can vary considerably depending on market conditions. The liabilities are measured by reference to bond yields whilst the assets of the scheme are invested in debt securities, equities and property. Changing investment markets together with the variable discount rate will lead to volatility in the net pension liability/asset in the balance sheet and in other comprehensive income.

Selection of accounting assumptions
The calculation of the defined benefit pension obligation is based on projecting future cash flows for many years into the future until all obligations have been settled. This means that the assumptions used can have a material impact on the liability and amount reported in the statement of financial position and in the statement of profit or loss and other comprehensive income. In practice the future experience may not be in line with the assumptions adopted in the valuation.

Inflation rate risk
Pensions accrued are linked to various inflation measures. Higher inflation will lead to higher liabilities.

Notes to the financial statements

3 Risk management (continued)

(i) Capital management

Aims of capital management policy

The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders. This includes the capital required to support the risk appetite identified in the Company's Risk Policies including an additional risk margin, in full compliance with the requirements of the Prudential Regulation Authority ('PRA').

Definitions of capital management (and supporting terms)

Capital Management is the collection of processes and activities undertaken to ensure that sufficient capital is maintained to ensure the organisation's ability to meet its liabilities and ultimately ensure its survival, particularly in the case of significant losses arising from adverse events.

Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital, and the ongoing monitoring of capital against business requirements. The Company is authorised by the PRA and regulated by the FCA and PRA.

The Company is required to report to the PRA two measures of capital adequacy, a minimum capital requirement ('MCR') and a solvency capital requirement ('SCR').

The MCR seeks to ensure that the Company has at least the minimum amount of capital to meet future expected claims obligations. The SCR reflects a level of eligible own funds that enables the Company to absorb a 1 in 200 event and provides reasonable assurance to policyholders that payments will be made as they fall due.

The Company uses a Partial Internal Model to calculate its SCR, approval for which was given by the PRA in December 2015. The solvency ratio at 31 December 2022 was 157% of the solvency capital requirement ('SCR') (2021: 159%).

All regulatory capital requirements have been complied with during the year.

Approach to capital management

The Company provides input into the Ageas UK Business Plan which is reviewed and revised each year and then formally approved by the Company's Board. A factor in the formulation of the Business Plan is the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure.

Overall capital requirements and structure are assessed taking account of the following:

- capital required to support the planned growth in new business and renewal premiums and profit targets;
- the required rate of return on capital employed;
- the required dividend;
- Solvency II capital requirements; and
- capital required to support the desired credit rating.

In the event of failure to meet the capital requirements, the Company would expect to revert to its shareholders for an injection of funds or look to alternative methods for ensuring compliance.

For pricing/underwriting purposes, capital is allocated to different classes of business using a risk-based methodology. Where product lines do not have the potential to achieve the required return on capital within the plan period the Company will consider discontinuing the products.

Notes to the financial statements

3 Risk management (continued)

(j) Sensitivity to key business drivers

The impact of the changes in key business drivers is each assumed to be a discrete change. All other factors will be unchanged. Some of these changes cannot be guaranteed to have a linear effect and as a range of other factors will impact the results they cannot be guaranteed to predict the detailed result. In addition the risk management process that the Company operates will ensure that corrective action is implemented to mitigate or reverse the changes.

The sensitivities below have been selected based on the significant effect they have on the profitability of the Company.

Interest yields change by 1.0%
The Company will be exposed to the impact of interest yield changes on its assets and liabilities. Forecasting the impact on the market values of fixed interest debt securities will not be linear due to other factors including credit rating movement, anticipation of future interest rate changes, trading performance or market sentiment of the issuers. The impacts shown below are based on the premise that there will be a parallel shift of all interest rates for short and long term.

For a decrease in yields there would be an increase in the market value of fixed interest debt securities. As the Company will normally hold its fixed interest debt securities to maturity, it will not suffer any reduction in its future cash flows. It will suffer a reduction in the yield on any future fixed interest debt securities that it purchases from surplus funds and the maturity of current investments. The financial assets designated as fair value through profit or loss have no maturity date and will not be directly impacted by changes in the interest rate. Further, the Company intends to hold the subordinated debt to maturity and the rate is a floating rate of interest. Hence, the impact of interest rate changes is minimal over the term of the debt.

	2022	2021
	£m	£m
Decrease of 1% would cause an increase in net assets before tax	9.0	13.0
Increase of 1% would cause a decrease in net assets before tax	(10.1)	(13.6)

Notes to the financial statements

3 Risk management (continued)

(j) Sensitivity to key business drivers (continued)

Expenses increase by 5.0%
If all three expense areas (acquisition, administration and claims handling) were to increase by 5.0%, in addition to the impact on profit of the additional costs it would also increase the claims handling provision and result in the deferral of additional acquisition costs to the extent that these will be recovered by unearned premiums.

	2022 £m	2021 £m
Total impact on profit before tax	(8.5)	(8.7)
Total impact on net assets before tax	(8.5)	(8.7)

Gross loss ratio increases by 1.0%
If the cost of claims were to increase the gross loss ratio (gross incurred claims as a proportion of gross earned premium) by 1.0% there would be a reduction in profits. It is assumed that a similar portion of claims costs would be recoverable from reinsurers. There would also be an increase in the claims handling reserve because a proportion of the claims would be unpaid at the statement of financial position date.

	2022 £m	2021 £m
Total impact on profit before tax	(6.9)	(7.2)
Total impact on net assets before tax	(6.9)	(7.2)

Notes to the financial statements

4 Gross written premiums

	2022 £m	2021 £m
Gross written premiums	1,078.4	1,208.3
Change in the gross provision for unearned premiums	81.5	26.6
Gross insurance premium revenue	1,159.9	1,234.9
less: Written premiums ceded to reinsurers incepting in the current year	(483.4)	(544.9)
less: Reinsurers' share of change in the provision for unearned premiums	(32.1)	(10.7)
Ceded earned premiums	(515.5)	(555.6)
Net insurance premium revenue	644.4	679.3

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 37 for more information.

5 Commission income

	2022 £m	2021 £m
Reinsurance commission	140.7	165.7
Change in reinsurers' share of deferred acquisition costs	11.6	4.0
Commission income	152.3	169.7

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 37 for more information.

6 Investment income

	2022 £m	2021 £m
Interest income:		
- Available-for-sale interest income	16.7	18.5
- Loans and receivables interest income	5.1	2.6
- Fair value through profit or loss interest income	3.2	2.9
Investment property income	1.3	1.3
Foreign exchange movement on derivative	1.0	-
Dividend income	0.5	0.2
Net realised gains on available-for-sale financial assets	-	4.5
Net unrealised (loss)/gain on financial assets designated as fair value through profit or loss	(7.9)	8.1
Total investment income	19.9	38.1

Notes to the financial statements

7 Other operating income

	2022	2021
	£m	£m
Engineers' income	1.1	1.2
Other income	2.9	2.4
Total other operating income	4.0	3.6

8 Claims and benefits incurred

	2022	2021
	£m	£m
Current year claims paid	369.8	319.7
Change in prior years claims	(146.4)	(72.7)
Claims handling costs	37.7	38.1
Additional liabilities arising during the year	553.2	463.5
Total claims and benefits incurred	814.3	748.6

9 Reinsurers' share of claims and benefits incurred

	2022	2021
	£m	£m
Current year claim recoveries	150.8	130.4
Change in prior years claims	(50.6)	(27.8)
Additional recoveries arising during the year	228.4	204.6
Total reinsurers' share of claims and benefits incurred	328.6	307.2

Note 8 and 9 above includes movements on gross claims outstanding including subrogation recoveries. The Claims handling cost for the year (Note 12) has been recognised separately as part of the Claims incurred above as it is not included in insurance contract liabilities in note 25.

10 Acquisition costs

	2022	2021
	£m	£m
Commission expenses payable	200.1	247.2
Other acquisition costs payable	47.7	59.0
Changes in deferred acquisition costs	28.7	9.3
Total acquisition costs	276.5	315.5

11 Profit on sale of line of business

On 15 February 2022, the Company announced the sale of its Commercial Lines business to AXA Insurance UK PLC (‘AXA’), recognising initial consideration of £47.5m and contingent deferred consideration of £5m, realising a profit of £52.5m. The Company’s Commercial lines business transferred to AXA throughout 2022, while existing back book policies will remain with the Company in run-off.

Notes to the financial statements

12 Operating expenses

	Note	2022 £m	2021 £m
Depreciation and amortisation:			
- Investment property	17	0.3	0.3
- Buildings	18	0.7	0.6
- Equipment and motor vehicles	18	0.4	0.4
- IT equipment	18	1.1	1.4
- Right of use cars	18	0.4	0.3
- Right of use land and buildings	18	0.7	0.7
- Intangible assets	19	1.9	1.7
Personnel expenses:			
- Wages and salaries	33	85.9	92.5
- Social security costs	33	9.2	9.6
- Other pension costs	33	5.3	5.5
- Personnel expenses recharged to a fellow group subsidiary	33	(22.6)	(23.9)
Other costs		88.8	93.5
Total operating expense		172.1	182.6
Operating expenses are analysed as:			
Acquisition costs	10	47.7	59.0
Administration costs		86.7	85.5
Claims handling costs	8	37.7	38.1
		172.1	182.6

Investment management fees

	2022 £m	2021 £m
Investment management fees are included within other costs above.		
Total fees incurred for investment management activities	0.8	1.0

Auditors' remuneration

	2022 £'000	2021 £'000
Auditors' remuneration is included within other costs above.		
Fees payable to the Company’s auditors for the audit of the Company’s Annual report		
- in respect of the current year	299.9	294.0
- in respect of the prior year	168.0	-
Fees payable to the Company’s auditors for other services:		
- Audit-related assurance services	136.0	134.0

13 Finance costs

	2022 £m	2021 £m
Interest expense relating to lease liabilities	0.1	0.1
Interest expense on loans	6.4	4.8
Total finance costs	6.5	4.9

Notes to the financial statements

14 Non-recurring administrative expenses

During 2021, the decision was taken to exit certain partnership arrangements following a commercial review of the business. Consequently, £6.3m of deferred commission was impaired in the year.

15 Income taxes

(a) Amounts recognised in profit or loss

	2022 £m	2021 £m
Current tax		
UK corporation tax on profits of the year	(1.4)	(2.9)
Prior year over provision in respect of current tax	0.3	0.4
	(1.1)	(2.5)
Deferred tax		
Origination and reversal of temporary differences	(2.2)	(4.3)
Effect of change in rate on deferred tax	0.4	8.1
Prior year over provision in respect of deferred tax	(0.2)	(2.5)
	(2.0)	1.3
Total income tax charge	(3.1)	(1.2)

(b) Reconciliation of effective tax rate

The tax assessed on the year is lower (2021: lower) than the standard rate of corporation tax in the United Kingdom of 19.0% (2021: 19.0%). The differences are explained below:

	2022 £m	2021 £m
Profit before tax	17.7	37.1
Standard rate of corporation tax in year	19.0%	19.0%
Expected tax charge based on the standard rate of corporation tax in the UK	(3.3)	(7.0)
Expenses not deductible for tax purposes	(0.4)	(0.2)
Effect of variable tax rates	0.4	8.1
Income receivable not taxable	0.1	-
	(3.2)	0.9
Prior year over provision in respect of current tax	0.3	0.4
Prior year under provision in respect of deferred tax	(0.2)	(2.5)
Total income tax charge	(3.1)	(1.2)

(c) Amounts recognised in other comprehensive income

	Note	2022 £m	2021 £m
Deferred tax on remeasurement of defined benefit pension scheme		6.9	(11.0)
Deferred tax on change in fair value of available-for-sale financial assets		18.8	8.1
	20 (b)	25.7	(2.9)

Notes to the financial statements

16 Investment in group undertakings

	2022	2021
	£m	£m
Investments in group undertakings are stated at cost		
At 1 January and 31 December	-	-

The Company has the following investment in group undertakings:

Company	Activity	% Owned	Ownership
HCP (Estate Management) Limited	Estate management	51	Control

The registered address of HCP (Estate Management) Limited ('HCP') is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

The Company has a 51% share (2021: 51%) in HCP, a company limited by guarantee with no share capital, and is incorporated in the United Kingdom. HCP is structured as a separate vehicle for the maintenance and upkeep of shared real estate and the Company has only a residual interest in the net assets of HCP. Accordingly, HCP is classified as a joint venture of the Company.

17 Investment property

	Land	Buildings	Total
	£m	£m	£m
Cost			
Balance at 1 January 2021	5.3	15.9	21.2
Balance at 31 December 2021	5.3	15.9	21.2
Balance at 31 December 2022	5.3	15.9	21.2
Accumulated depreciation			
Balance at 1 January 2021	-	1.8	1.8
Depreciation charge for the year	-	0.3	0.3
Balance at 31 December 2021	-	2.1	2.1
Depreciation charge for the year	-	0.3	0.3
Balance at 31 December 2022	-	2.4	2.4
Carrying amounts			
Balance at 31 December 2021	5.3	13.8	19.1
Balance at 31 December 2022	5.3	13.5	18.8

The property relates to Deansleigh House, Bournemouth, and is let to a fellow group undertaking under an operating lease (details are included in note 37, Related party transactions). See also note 34, Operating leases, for the terms of the operating lease.

Ageas Insurance Limited
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Notes to the financial statements

18 Property, plant and equipment

	Right of use assets		Own use assets			Total
	Land and buildings	Motor vehicles	Land and buildings	Equipment and motor vehicles	IT equipment	
	£m	£m	£m	£m	£m	£m
Cost						
Balance at 1 January 2021	7.8	1.1	36.5	2.9	11.3	59.6
Acquisitions	-	0.4	-	0.6	1.1	2.1
Disposals	(1.6)	(0.2)	-	(1.6)	-	(3.4)
Balance at 31 December 2021	6.2	1.3	36.5	1.9	12.4	58.3
Acquisitions	-	0.3	-	0.7	0.6	1.6
Disposals	-	(0.5)	-	-	-	(0.5)
Balance at 31 December 2022	6.2	1.1	36.5	2.6	13.0	59.4
Accumulated depreciation						
Balance at 1 January 2021	2.2	0.5	4.3	2.0	7.5	16.5
Depreciation charge for the year	0.7	0.3	0.6	0.4	1.4	3.4
Disposals	(1.5)	(0.1)	-	(1.6)	-	(3.2)
Balance at 31 December 2021	1.4	0.7	4.9	0.8	8.9	16.7
Depreciation charge for the year	0.7	0.4	0.7	0.4	1.1	3.3
Disposals	-	(0.5)	-	-	-	(0.5)
Balance at 31 December 2022	2.1	0.6	5.6	1.2	10.0	19.5
Carrying amounts						
Balance at 31 December 2021	4.8	0.6	31.6	1.1	3.5	41.6
Balance at 31 December 2022	4.1	0.5	30.9	1.4	3.0	39.9

Notes to the financial statements

19 Intangible assets

	Software £m	Licences £m	Total £m
Cost			
Balance at 1 January 2021	12.1	0.9	13.0
Acquisitions	5.2	-	5.2
Balance at 31 December 2021	17.3	0.9	18.2
Acquisitions	19.6	-	19.6
Balance at 31 December 2022	36.9	0.9	37.8
Accumulated amortisation			
Balance at 1 January 2021	0.8	0.4	1.2
Amortisation charge for the year	1.5	0.2	1.7
Balance at 31 December 2021	2.3	0.6	2.9
Amortisation charge for the year	1.8	0.1	1.9
Balance at 31 December 2022	4.1	0.7	4.8
Carrying amounts			
Balance at 31 December 2021	15.0	0.3	15.3
Balance at 31 December 2022	32.8	0.2	33.0

The carrying amount of software at 31 December 2022 includes externally purchased software of £0.5m (2021: £1.2m) (comprising the cost of £1.9m (2021: £1.9m) less accumulated depreciation of £1.4m (2021: £0.7m)). Acquisitions in the year include externally purchased and internally developed intangible assets.

20 Deferred acquisition costs

As part of the Company's insurance business, certain acquisition costs are deferred. An analysis of these deferred costs is set out below:

	2022 £m	2021 £m
Balance at 1 January	139.2	148.3
Acquisition costs incurred in year	247.7	306.4
Amortisation charged to income	(276.5)	(315.5)
Balance at 31 December	110.4	139.2

All amounts are current (2021: current).

Notes to the financial statements

21 Deferred tax assets

A change to the main UK corporation tax rate, announced in the Budget on 3 March 2021, was substantively enacted on 24 May 2021. This resulted in the rate increasing from 19% to 25% from 1 April 2023. The deferred tax asset recognised as at 31 December 2022 has been calculated using all substantively enacted tax rates.

(a) Recognised deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2022 £m	2021 £m
Property, plant and equipment	0.5	1.1
Provisions and other timing differences	0.8	0.9
Recognised losses	35.7	36.7
Available-for-sale financial assets	16.2	(2.6)
Deferred tax asset	53.2	36.1
Defined benefit pension scheme	10.3	16.9
Deferred tax liability	10.3	16.9

The balance is all non-current (2021: all non-current).

There is no unrecognised deferred tax in respect of any unrecognised losses (2021: none).

(b) Movement in temporary differences during the year

	1 Jan 2022 £m	Recognised in profit £m	Recognised in OCI £m	31 Dec 2022 £m
Property, plant and equipment	1.1	(0.6)		0.5
Provisions and other timing differences	1.0	(0.2)	-	0.8
Recognised losses	36.6	(0.9)	-	35.7
Available-for-sale financial assets	(2.6)	-	18.8	16.2
Defined benefit pension scheme	(16.9)	(0.3)	6.9	(10.3)
Deferred tax assets/(liabilities)	19.2	(2.0)	25.7	42.9

	1 Jan 2021 £m	Recognised in profit £m	Recognised in OCI £m	31 Dec 2021 £m
Property, plant and equipment	1.3	(0.2)	-	1.1
Provisions and other timing differences	1.8	(0.8)	-	1.0
Recognised losses	32.0	4.6	-	36.6
Available-for-sale financial assets	(10.7)	-	8.1	(2.6)
Defined benefit pension scheme	(3.6)	(2.3)	(11.0)	(16.9)
Deferred tax assets/(liabilities)	20.8	1.3	(2.9)	19.2

Notes to the financial statements

22 Financial assets

	2022 £m	2021 £m
Available-for-sale financial assets	916.7	1,117.2
Loans and receivables	27.6	29.9
Derivative financial assets	-	0.3
Financial assets designated as fair value through profit or loss	134.0	108.1
Total financial assets	1,078.3	1,255.5

(a) Available-for-sale financial assets

	2022 £m	2021 £m
Debt securities - fixed rate		
UK Government bonds	96.2	96.5
Non-UK Government bonds	-	1.9
Quasi Government Bonds	194.8	187.3
Corporate bonds	625.7	831.5
	916.7	1,117.2

The movements in available-for-sale financial assets are as follows:

	2022 £m	2021 £m
Balance at 1 January	1,117.2	1,187.3
Foreign exchange/translation differences	0.3	-
Additions	220.0	233.7
Sales and redemptions	(335.9)	(260.8)
Fair value unrealised gains and losses	(82.6)	(42.7)
Amortisation of premiums and discounts	(2.3)	(0.3)
Balance at 31 December	916.7	1,117.2

Notes to the financial statements

22 Financial assets (continued)

(a) Available-for-sale financial assets (continued)

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty on a funds withheld basis. The funds withheld financial assets have been derecognised from the Company's statement of financial position in line with the derecognition criteria within IAS 39 Financial Instruments. See note 38 for further information.

As at 31 December 2022 the current portion of available-for-sale financial assets is £215.0m (2021: £328.2m) and the non-current portion is £701.7m (2021: £789.1m).

The effective interest rate at the statement of financial position date on available-for-sale financial assets denominated in sterling is 1.98% (2021: 1.52%). As at 31 December 2021 the effective interest rate on USD assets was 1.75%. The Company traded out of its USD available-for-sale financial assets during the year.

The Company does not have direct exposure to sovereign debt other than to the UK government, and indirect exposure is carefully managed through conservative investment guidelines.

(b) Loans and receivables

	2022 £m	2021 £m
Real estate debt	27.6	29.9

The real estate debt consists of 18 underlying loans with an average unexpired term of 4.3 years and average internal rate of return of 3.9%.

(c) Derivative financial assets

	2022 £m	2021 £m
Gross inflow	-	14.1
Gross outflow	-	(13.8)
Currency forward contracts	-	0.3
Notional amount	-	14.1

	£m	£m
Current	-	0.3

The Company holds derivative financial instruments in order to mitigate the exchange risk arising from its USD, AUD and Euro denominated infrastructure equity investments. Currency forward contracts are contractual agreements to sell currency and buy sterling at a specific price and date in the future. The contracts are rebased monthly.

See note 26 (b) for details of derivative financial liabilities as at 31 December 2022.

22 Financial assets (continued)

(d) Financial assets designated at fair value through profit or loss

	2022 £m	2021 £m
Infrastructure equity	53.6	18.0
Property funds	80.4	90.1
Financial assets designated at fair value through profit or loss	134.0	108.1

These investments have been designated as fair value through profit or loss as it is the Company's intention to manage the investments and evaluate performance on a fair value basis. The returns on both the infrastructure equity and property funds are the key performance measures against which they will be measured.

Both the infrastructure equity and property funds are non-current.

(e) Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

The fair value for level 2 financial instruments is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. The category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

All financial assets designated as level 3 use unobservable inputs to measure fair value as relevant observable inputs are unavailable. The valuation is performed by the fund, either using its own internal valuation process, or is outsourced to an independent expert. The Company has adequate controls and processes in place to be satisfied that the valuations of these financial assets are materially correct at the reporting date as fund valuation policies are reviewed for reasonableness. Significant increases/(decreases) in any of the unobservable inputs used in the fair value measurement of the entity's property funds would result in a significantly lower/(higher) fair value measurement.

Notes to the financial statements

22 Financial assets (continued)

(e) Valuation of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets	96.2	820.5	-	916.7
Financial assets designated as fair value through profit or loss	-	49.3	84.7	134.0
	96.2	869.8	84.7	1,050.7

2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets	98.4	1,018.8	-	1,117.2
Derivative financial assets	-	0.3	-	0.3
Financial assets designated as fair value through profit or loss	-	58.3	49.8	108.1
	98.4	1,077.4	49.8	1,225.6

The classification and measurement of all assets and liabilities is detailed in note 35.

Notes to the financial statements

22 Financial assets (continued)

(f) Unrealised gains and losses in fair value on available-for-sale assets through other comprehensive income

	2022		2021	
	Fair value £m	Unrealised (loss) or gain £m	Fair value £m	Unrealised gain £m
Available-for-sale financial assets				
Assets fair valued at below amortised cost	869.9	(69.0)	421.0	(3.9)
Assets fair valued at or above amortised cost	46.8	-	696.2	17.5
Total	916.7	(69.0)	1,117.2	13.6
Gross unrealised loss position for various percentages of amortised cost				
Between 90% and 100%	714.0	(29.3)	421.0	(3.9)
Below 90%	202.7	(39.7)	-	-
Total	916.7	(69.0)	421.0	(3.9)

(g) Unrealised gains and losses in fair value on assets designated as fair value through profit or loss

	2022		2021	
	Fair value £m	Unrealised gain £m	Fair value £m	Unrealised (loss) £m
Assets designated as fair value through profit or loss	134.0	(6.1)	108.1	1.7
Total	134.0	(6.1)	108.1	1.7

Notes to the financial statements

23 Insurance and other receivables

	2022 £m	2021 £m
Receivables arising from insurance contracts:		
- contract holders	6.7	13.3
- agents, brokers and intermediaries	172.4	232.2
- reinsurers	41.2	11.2
Total receivables arising from insurance contracts	220.3	256.7
Amounts due from group undertakings	82.8	83.8
Salvage and subrogation recoveries	30.8	20.3
Accrued interest income	12.5	13.0
Deferred other charges	12.7	9.8
Other receivables	6.6	1.3
Total insurance and other receivables	365.7	384.9

Amounts due from group undertakings include an outstanding loan due from Ageas Retail Limited of £70.0m (2021: £70.0m). There are currently no amounts outstanding on the loan facility with to Ageas (UK) Limited (2021: £nil).

The Company has issued loans to Ageas (UK) Limited and Ageas Retail Limited, with maximum capacities of £15.0m and £100.0m respectively. On 20 March 2023 the Company restated both loans to extend the maturity dates to 7 September 2025. Both loans bear interest at 1.75% above the Bank of England base rate. There is also a non-utilisation charge at 0.56% of the undrawn portion of each loan facility.

Except for the loans issued to Ageas (UK) Limited and Ageas Retail Limited mentioned above, amounts due from group undertakings are unsecured, interest free and repayable on demand in cash.

The balance above is split £339.9m current and £25.8m non current (2021: £362.3m current, £22.6m non current).

24 Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank	100.6	99.6
Cash not available to the Company - held in trust	-	1.4
Cash and cash equivalents	100.6	101.0

The effective interest rate for the year 2022 on short term bank deposits was 1.00% per annum (2021: 0.54% per annum), with an average maturity of one day.

Included in cash and cash equivalents held by the Company as at 31 December 2021 were balances totalling £1.4m not available for use by the Company because they were held in trust to guarantee claims liabilities (2022: £nil).

Notes to the financial statements

25 Insurance contract provisions and reinsurance assets

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Unearned premiums	513.2	(207.1)	306.1	594.7	(239.2)	355.5
Outstanding claims	1,633.1	(804.2)	828.9	1,594.3	(789.1)	805.3
Total insurance contract provisions	2,146.3	(1,011.3)	1,135.0	2,189.0	(1,028.3)	1,160.8

Outstanding claims is made up of both claims reported by policy holders and those that are incurred but not reported. These are disclosed together to align with how management projects the total outstanding claims amounts

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 36 for more information.

Salvage and subrogation recoveries are not included above. For details see subsection (iii).

The gross insurance contract provisions balance is split £1,109.8m current and £1,036.5m non current (2021: £1,191.0m current, £998.0m non current). The reinsurance contract provisions balance is split £501.2m current and £510.2m non current (2021: £535.6m current, £492.8m non current).

(i) Analysis of movements in insurance contract provisions

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Balance at 1 January	2,189.0	(1,028.3)	1,160.7	2,181.9	(1,023.2)	1,158.7
Claims paid/recovered from reinsurers	(748.3)	313.4	(434.9)	(679.2)	291.3	(387.9)
Claims Development	787.0	(328.5)	458.5	712.9	(307.1)	405.8
Change in provision for unearned premiums	(81.4)	32.1	(49.3)	(26.6)	10.7	(15.9)
Balance at 31 December	2,146.3	(1,011.3)	1,135.0	2,189.0	(1,028.3)	1,160.7

(ii) Analysis of movements in provision for unearned premium

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Balance at 1 January	594.7	(239.2)	355.5	621.3	(249.9)	371.4
Written premiums during the year	1,078.4	(483.4)	595.0	1,208.3	(544.9)	663.4
Less: premiums earned during the year	(1,159.9)	515.5	(644.4)	(1,234.9)	555.6	(679.3)
Balance at 31 December	513.2	(207.1)	306.1	594.7	(239.2)	355.5

Notes to the financial statements

25 Insurance contract provisions and reinsurance assets (continued)

(iii) Analysis of movements in outstanding claims

	2022			2021		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Gross outstanding claims						
Balance at 1 January	1,594.3	(789.1)	805.2	1,560.6	(773.3)	787.4
Current year claims	947.2	(379.2)	568.0	798.4	(335.0)	463.4
Change in prior year claims	(160.2)	50.6	(109.6)	(85.5)	27.8	(57.7)
Current year claims paid	(369.8)	150.8	(219.0)	(319.7)	130.4	(189.3)
Previous year claims paid	(378.4)	162.7	(215.7)	(359.5)	161.0	(198.5)
Balance at 31 December	1,633.1	(804.2)	828.9	1,594.3	(789.1)	805.2
Salvage and subrogation recoveries						
Balance at 1 January	(20.3)	-	(20.3)	(17.8)	-	(17.8)
Current year claims	(24.2)	-	(24.2)	(15.3)	-	(15.3)
Change in prior year claims	13.7	-	13.7	12.8	-	12.8
Balance at 31 December	(30.8)	-	(30.8)	(20.3)	-	(20.3)
Gross outstanding claims net of recoveries						
Balance at 1 January	1,574.0	(789.1)	784.9	1,542.8	(773.3)	769.5
Current year claims	923.0	(379.2)	543.8	783.1	(335.0)	448.1
Change in prior year claims	(146.5)	50.6	(95.9)	(72.7)	27.8	(44.9)
Current year claims paid	(369.8)	150.8	(219.0)	(319.7)	130.4	(189.4)
Previous year claims paid	(378.4)	162.7	(215.7)	(359.5)	161.0	(198.5)
Balance at 31 December	1,602.3	(804.2)	798.1	1,574.0	(789.1)	784.9

25 Insurance contract provisions and reinsurance assets (continued)

(iv) Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance contract provisions are internal, using detailed studies that are carried out quarterly. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate cost of the loss is difficult to estimate. The degree of complexity involved will also differ by book of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and delayed reporting by policyholders.

For the majority of risks the cost of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the Company's expectation of the loss ratio for a class of business; and
- benchmarking methods, which use the experience of comparable, more mature classes to estimate the cost of claims.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in, for example, a difference in expected levels of claims inflation);
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Company is covered by a variety of excess of loss and quota share reinsurance programmes. The method used by the Company takes historical data, gross IBNR estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Notes to the financial statements

25 Insurance contract provisions and reinsurance assets (continued)

(iv) Process used to determine the assumptions (continued)

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 35 for more information.

The Company believes that the outstanding claims reported in the statement of financial position are adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

The reserves are net of recoveries from salvage and subrogation. These recoveries are estimated on the probability of the recovery being made and are subject to regular review.

(v) Analysis of claims development – gross of reinsurance and net of salvage and subrogation recoveries

					Accident Year			
	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross estimate of cumulative claims								
At end of accident year	1,101.2	972.5	847.9	866.7	785.7	783.2	923.0	6,280.0
- one year later	84.8	5.1	92.4	(9.8)	(25.4)	13.6		160.7
- two years later	(93.6)	(33.4)	(83.3)	18.1	(35.5)			(227.7)
- three years later	(67.5)	(20.4)	(14.3)	(31.0)				(133.2)
- four years later	(7.7)	(11.3)	(39.4)					(58.1)
- five years later	(13.4)	(35.6)						(49.0)
- six years later	(7.0)							(7.0)
Estimate of cumulative claims	996.9	876.9	803.3	844.0	724.8	796.8	923.0	5,965.6
Cumulative payments to date	(929.2)	(847.1)	(744.9)	(669.5)	(554.5)	(520.5)	(369.8)	(4,635.5)
	67.7	29.8	58.5	174.5	170.2	276.3	547.0	1,330.1
Provision for prior years								272.2
Gross outstanding claims net of recoveries								1,602.3

Notes to the financial statements

25 Insurance contract provisions and reinsurance assets (continued)

(vi) Analysis of claims development – net of reinsurance and net of salvage and subrogation recoveries

	Accident Year							
	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Net estimate of cumulative claims								
At end of accident year	1,008.4	913.2	810.6	578.3	445.6	448.2	543.7	4,748.0
- one year later	61.4	39.5	(75.0)	(45.3)	(2.9)	12.4		(9.8)
- two years later	(80.4)	(130.6)	(59.2)	(6.3)	(31.4)			(307.9)
- three years later	(92.8)	(29.7)	(11.5)	(17.8)				(151.8)
- four years later	(21.1)	(10.4)	(27.3)					(58.8)
- five years later	(5.7)	(15.0)						(20.7)
- six years later	(2.9)							(2.9)
Estimate of cumulative claims	886.9	767.0	637.7	508.9	411.3	460.5	543.7	4,196.1
Cumulative payments to date	(851.7)	(754.4)	(617.3)	(434.7)	(321.6)	(309.6)	(219.0)	(3,508.3)
	15.2	12.6	20.4	74.2	89.7	150.9	324.7	687.8
Provision for prior years								110.3
Net outstanding claims								798.1

26 Loans and borrowings from group companies

	2022	2021
	£m	£m
Non-current liabilities		
Subordinated debt	119.5	119.4

The subordinated debt incurs interest at 3.94% above SONIA per annum, with the SONIA rate being reviewed quarterly. From 2026 the interest rate will increase to 4.94% above SONIA per annum and will remain at this rate until maturity. Accrued interest is payable quarterly. The subordinated debt has a maturity date of 5 November 2046.

On 5 November 2021, the Company amended and restated its loan with ageas SA/NV to change the floating interest rate calculated on its subordinated debt from LIBOR to SONIA. Until the amendment of the loan, the subordinated debt incurred interest at 3.85% above LIBOR per annum.

Notes to the financial statements

27 Other financial liabilities

	2022 £m	2021 £m
Lease liabilities	4.3	5.1
Derivative financial liabilities	1.1	-
Total financial liabilities	5.4	5.1

(a) Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments 2022 £m	Interest 2022 £m	Present value 2022 £m	Present value 2021 £m
Current liabilities				
No later than one year	0.9	(0.1)	0.8	0.6
Non-current liabilities				
Between one and five years	2.7	(0.2)	2.5	2.8
Later than five years	1.0	-	1.0	1.7
	4.6	(0.3)	4.3	5.1

During the year, the Company made £1.0m (2021: £1.1m) of minimum lease payments and £0.1m (2021: £0.1m) was recognised as interest expense in the statement of profit or loss and other comprehensive income in respect of lease.

(b) Derivative financial liabilities

	2022 £m	2021 £m
Gross inflow	46.6	-
Gross outflow	(47.7)	-
Currency forward contracts	(1.1)	-
Notional amount	46.6	-
	£m	£m
Current derivative liabilities	1.1	-

The Company holds derivative financial instruments in order to mitigate the exchange risk arising from its USD, AUD and Euro denominated infrastructure equity investments. Currency forward contracts are contractual agreements to sell currency and buy sterling at a specific price and date in the future. The contracts are rebased monthly.

Notes to the financial statements

28 Other provisions

	2022 £m	2021 £m
Balance at 1 January	19.8	21.7
Released during the year	(1.5)	(4.5)
Provisions used during the year	(0.4)	(2.5)
Increase in provisions during the year	2.0	5.1
Balance at 31 December	19.9	19.8

Included in the amounts above are provisions for expected future levy expenses in respect of the Motor Insurers' Bureau of £17.2m (2021: £17.8m) and a liability in respect of expected dilapidation costs of £0.6m (2021: £0.7m).

The balance is split £18.2m current and £1.7m non-current (2021: £18.8m current and £1.0m non-current).

There is some uncertainty around the timing of outflows in relation to the future levy expenses provision as it is dependent on future events. The dilapidation cost provision will be utilised upon expiry of the specific lease to which it relates.

29 Current tax

	2022 £m	2021 £m
Current tax asset	2.9	2.0

The current tax balance represents the amount of income taxes receivable in respect of the current year as well as a residual balance in respect of prior years.

30 Reinsurance payables

	2022 £m	2021 £m
Due to reinsurers	2.5	6.6

This balance is all current (2021: all current).

Notes to the financial statements

31 Insurance payables, other payables and deferred income

	2022	2021
	£m	£m
Direct insurance contract payables	25.8	37.1
Reinsurers' share of deferred acquisition costs	75.2	86.8
Other payables and accrued expenses	23.4	28.1
Amounts due to group undertakings	1.3	0.8
IPT, VAT and other taxes payable	30.3	39.6
Total insurance payables, other payables and deferred income	156.0	192.4

Amounts due to group undertakings are unsecured, interest free and repayable on demand in cash. All amounts are payable within one year (2021: within one year).

See note 38 for details on reinsurers' share of deferred acquisition costs.

32 Capital and reserves

(a) Share capital

	Ordinary shares		Deferred shares		Total	
	2022	2021	2022	2021	2022	2021
	£m	£m	£m	£m	£m	£m
In issue at 1 January and 31 December	274.8	274.8	3.0	3.0	277.8	277.8

At 31 December 2022, the issued and authorised share capital comprised 274,823,432 ordinary shares (2021: 274,823,432) and 3,000,000 deferred shares (2021: 3,000,000). The ordinary and deferred shares have a par value of £1 each and are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Deferred shares do not carry the right to vote and holders are not entitled to participate in profits of the Company. All shares rank equally with regard to the Company's residual assets, except that deferred shareholders participate only to the extent of the face value of the shares. On winding up, the deferred shares would rank second, repaying the holders the amount of capital paid up.

(b) Dividends

The Company declared and paid two dividends totaling £76.4m during the year (2021: £32.4m), representing 27.80 pence per ordinary share (2021: 11.79 pence per share).

Notes to the financial statements

33 Staff numbers and costs

The following disclosure represents the total number of persons employed by the Company, excluding any employees seconded to any fellow group companies.

The total number of employees at the year end, analysed by category, was as follows:

	2022 No.	2021 No.
Business acquisition	544	706
Claims handling	660	642
Administration	597	593
	1,801	1,941

The full time equivalent number of employees was as follows:

	2022 No.	2021 No.
Business acquisition	516	680
Claims handling	603	587
Administration	572	569
	1,691	1,836

The average number of employees during the year was as follows:

	2022 No.	2021 No.
Total number of employees	1,898	1,968
Full time equivalent number of employees	1,784	1,857

The aggregate payroll costs in respect of these persons were as follows:

	2022 £m	2021 £m
Wages and salaries	66.6	71.9
Social security costs	7.1	7.4
Other pension costs	4.2	4.4
	77.9	83.7

Notes to the financial statements

34 Operating leases

Leases as lessor

The Company leases office premises to a fellow group undertaking under the terms of a lease which expires in 2029.

At 31 December, the future minimum lease payments receivable under non-cancellable leases are as follows:

	2022	2021
	£m	£m
Less than one year	1.3	1.3
Between one and five years	5.2	5.2
More than five years	1.9	3.2
Total	8.4	9.7

Leases as lessee

The Company leases motor vehicles and land and buildings with the lease term depending on the underlying lease term. The amounts disclosed within the profit and loss statement and statement of financial position is as follows:

		2022	2021
	Note	£m	£m
Right-of-use assets	18	4.6	5.4
Lease liabilities	27	4.3	5.1
Amounts recognised in profit and loss	13	0.1	0.1

Notes to the financial statements

35 Pension schemes

Defined contribution plans
The Company operates two defined contribution schemes. The Ageas Group Personal Pension scheme is for the majority of its employees and the Groupama Personal Pension Plan is in respect of a small number of employees. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension costs in respect of members of these funds represents contribution payable by the Company to the funds and amounted to £5.3m (2021: £5.5m). The Company has no further payment obligations once the contributions have been paid.

Defined benefit pension scheme
The Company operates a funded defined benefit pension scheme, the Ageas Insurance Staff Pension Scheme, in respect of staff who were members of the scheme on 31 December 1997 and staff of group companies who had contractual rights to join the scheme after this date. In 2001 active members of the Northern Star Insurance Company Limited Superannuation Fund, whose employment transferred to the Company, joined the scheme for future service on a benefit structure mirroring that in their previous scheme and were granted past service benefits in respect of a bulk transfer payment received from that scheme. The scheme closed for future accrual with effect from 1 January 2021.

The assets of the scheme are held in a separate trust fund. Assets are invested under trustee guidelines. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. A full actuarial valuation was carried out at 1 January 2021. At that date, the market value of the assets of the scheme amounted to £232.8m and was sufficient to cover 105% of the benefits that had accrued to members, after allowing for the expected future increases in earnings. As at 31 December 2022 the market value of the assets of the scheme amounted to £144.7m and was sufficient to cover 125.5% of the present value of the defined benefit obligation.

During the year, the Company paid £25,000 per month towards the administration and operating expenses that were settled using the Ageas Insurance Staff Pension Scheme's assets.

The expense recognised in the statement of profit or loss in respect of the defined benefit pension scheme in 2022 was £0.4m (2021: £0.3m).

Notes to the financial statements

35 Pension schemes (continued)

Defined benefit pension asset recognised in the statement of financial position

	2022 £m	2021 £m
Opening net asset	48.3	19.0
Income/(expense) recognised in the statement of profit or loss	0.4	0.2
Remeasurements recognised through other comprehensive income	(19.6)	29.1
Contributions paid	0.3	-
Net defined benefit pension asset recognised in the statement of financial position	29.4	48.3

Assumptions

The formal valuation of the Ageas Insurance Staff Pension Scheme was updated by a qualified independent actuary on an IAS 19 (Revised) basis as at 31 December 2022. The major assumptions used by the actuary were:

	2022	221
Valuation method	Projected unit %	Projected unit %
Rate of increase in salaries	n/a	n/a
Pensions accrued before 1 October 2012 rate of increase:		
- Post 1988 Non GMP (ex Bishopsgate members)	5.00	5.00
- Post 1988 Non GMP (ex Northern Star members)	3.55	3.55
Pensions accrued from 1 October 2012 rate of increase	2.50	2.50
Discount rate	4.75	1.80
RPI inflation assumption	3.40	3.55

The future life expectancy assumption for a current male pensioner aged 65 is 22.3 years (2021: 22.3 years), for a current female pensioner aged 65 it is 24.8 years (2021: 24.7 years), for a future male pensioner aged 65 in 20 years from the accounting date it is 24.8 years (2021: 23.6 years), and for a future female pensioner aged 65 in 20 years from the accounting date it is 26.2 years (2021: 26.1 years).

The assumptions used by the actuary are considered to be the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

The defined benefit scheme is closed to new members. Under the projected unit method of valuing the liabilities of the scheme, the current service cost will increase as the members of the scheme approach retirement.

At 31 December 2022 the weighted average duration of the defined benefit obligation was 14 years (2021: 18 years).

Notes to the financial statements

35 Pension schemes (continued)

Changes in the present value of the obligations

	2022	2021
	£m	£m
Present value of defined benefit obligation at 1 January	182.2	214.4
Interest expense	3.2	2.6
Current service cost	0.5	-
Benefits and other payments	(5.3)	(8.2)
Remeasurement on obligation	(65.3)	(26.6)
Present value of defined benefit obligation at 31 December	115.3	182.2

Changes in the fair value of scheme assets

	2022	2021
	£m	£m
Fair value of scheme assets at 1 January	230.5	233.4
Interest on assets	4.1	2.9
Employer contributions	0.4	-
Benefits and other payments	(5.3)	(8.2)
Remeasurement on scheme assets	(85.0)	2.4
Fair value of scheme assets at 31 December	144.7	230.5

Notes to the financial statements

35 Pension schemes (continued)

Amounts recognised in the statement of financial position and statement of profit or loss and other comprehensive income

	2022 £m	2021 £m
Fair value of scheme assets at 31 December	144.7	230.5
Present value of the defined benefit obligation at 31 December	(115.3)	(182.2)
Net defined benefit asset recognised in balance sheet	29.4	48.3
Current service cost	(0.5)	-
Past service cost	-	-
Interest expense	(3.2)	(2.6)
Interest on assets	4.1	2.9
Income/(expense) recognised in the profit or loss	0.4	0.3
Remeasurement on scheme assets during the year	(85.0)	2.4
Remeasurement on defined benefit obligations during the year	65.3	26.6
Total remeasurement during the year	(19.7)	29.0
Opening remeasurements through OCI	54.5	25.5
Total remeasurement during the year	(19.8)	29.0
Closing remeasurements through OCI	34.7	54.5
Interest on scheme assets	(4.1)	2.9
Remeasurement on scheme assets	(85.0)	2.4
Actual return on scheme assets	(89.1)	5.3
Remeasurement on defined benefit obligations due to change in assumptions		
- Remeasurement on defined benefit obligations due to change in demographic assumptions	(1.8)	(6.1)
- Remeasurement on defined benefit obligations due to change in financial assumptions	(68.9)	(16.5)
Experience remeasurement on defined benefit obligation	5.4	(4.0)
Total remeasurement on defined benefit obligation	(65.3)	(26.6)
Asset mix of scheme assets		
Equity securities	20.9	23.9
Debt securities	101.1	157.2
Real estate	20.7	24.0
Other	2.0	25.4
Fair value of scheme assets at 31 December	144.7	230.5

All assets are designated as level 2 financial instruments and are valued using inputs which are observable (i.e. developed using market data) for the asset, either directly or indirectly.

Notes to the financial statements

35 Pension schemes (continued)

Sensitivity analysis

The following potential changes to two of the key actuarial assumptions at the reporting date, holding other assumptions constant, would have affected the defined benefit pension scheme obligation by the amounts shown below:

	2022		2021	
	Increase £m	Decrease £m	Increase £m	Decrease £m
Discount rate (1% movement)	14.4	(17.5)	28.7	(37.7)
Future pension growth (1% movement)	(5.6)	5.9	(12.1)	12.6

Notes to the financial statements

36 Assets and liabilities – classification and measurement

Assets and liabilities have been classified and valued in accordance with the requirements of international accounting standards. For financial assets the basis of valuation is set out in note 1 and classification into Levels is detailed in note 22.

Other assets and liabilities valued at fair value are in accordance with the principles set out in IFRS 13: Fair Value Measurement. Where the carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair value, then the fair value information is not disclosed. The basis applied is summarised below:

	2022 £m	2022 £m	2022 £m	2022 £m
	Fair value available for sale through OCI/ Profit or Loss	Cost/ amortised cost/ IFRS 4 basis	Total carrying value	Fair value where applicable
Assets				
Investments in group undertakings	-	-	-	-
Investment property	-	18.8	18.8	-
Property, plant and equipment	-	39.9	39.9	-
Intangible assets	-	33.0	33.0	-
Employee benefits	-	29.4	29.4	-
Deferred acquisition costs	-	110.4	110.4	-
Deferred tax assets	-	53.2	53.2	-
Financial assets	1,050.7	27.6	1,078.3	1,078.3
Reinsurance assets	-	1,011.3	1,011.3	-
Current tax assets	-	2.9	2.9	-
Insurance and other receivables	-	365.7	365.7	-
Cash and cash equivalents	-	100.6	100.6	-
Total assets	1,050.7	1,792.8	2,843.5	1,078.3
Liabilities				
Insurance contract provisions	-	2,146.3	2,146.3	-
Financial liabilities:				
- Loans and borrowings from group companies	-	119.5	119.5	-
- Other	-	5.4	5.4	-
Other provisions	-	19.9	19.9	-
Deferred tax liability	-	10.3	10.3	-
Reinsurance payables	-	2.5	2.5	-
Insurance payables, other payables and deferred income	-	156.0	156.0	-
Total liabilities	-	2,459.9	2,459.9	-

Notes to the financial statements

36 Assets and liabilities – classification and measurement (continued)

	2021 £m Fair value available for sale through OCI/ Profit or Loss	2021 £m Cost/ amortised cost/ IFRS 4 basis	2021 £m Total carrying value	2021 £m Fair value where applicable
Assets				
Investments in group undertakings	-	-	-	-
Investment property	-	19.1	19.1	-
Property, plant and equipment	-	41.6	41.6	-
Intangible assets	-	15.3	15.3	-
Employee benefits	-	48.3	48.3	-
Deferred acquisition costs	-	139.2	139.2	-
Deferred tax assets	-	36.1	36.1	-
Financial assets	1,225.6	29.9	1,255.5	1,255.5
Reinsurance assets	-	1,028.3	1,028.3	-
Current tax assets	-	2.0	2.0	-
Insurance and other receivables	-	384.9	384.9	-
Cash and cash equivalents	-	101.0	101.0	-
Total assets	1,225.6	1,845.7	3,071.3	1,255.5
Liabilities				
Insurance contract provisions	-	2,189.0	2,189.0	-
Financial liabilities:				
- Loans and borrowings from group companies	-	119.4	119.4	-
- Other	-	5.1	5.1	-
Other provisions	-	19.8	19.8	-
Deferred tax liability	-	16.9	16.9	-
Reinsurance payables	-	6.6	6.6	-
Insurance payables, other payables and deferred income	-	192.4	192.4	-
Total liabilities	-	2,549.2	2,549.2	-

Notes to the financial statements

37 Related party transactions

The Company has a related party relationship with the directors and other key management personnel of the Company.

Transactions with directors and other key management personnel

In addition to their salaries, the Company also provides non-cash benefits to directors and other key management personnel, and contributes to a post-employment defined benefit plan or a defined contribution scheme on their behalf.

The remuneration of the directors consists of:	2022 £m	2021 £m
Short-term employee benefits	0.6	0.5
	0.6	0.5

The remuneration of the key management personnel consists of:	2022 £m	2021 £m
Short-term employee benefits	0.9	0.8
Equity compensation benefits	0.0	0.1
	0.9	0.9

In respect of the highest paid director:	2022 £m	2021 £m
Short-term employee benefits	0.3	0.2
	0.3	0.2

One of the Company’s directors is not included in the disclosure above as no recharge is received for their services.

Under the defined benefit scheme, the highest paid director’s accrued pension at the year end was £nil (2021: £nil).

Benefits are accruing for one key management person under the defined benefit pension scheme (2021: one).

Notes to the financial statements

37 Related party transactions (continued)

Group reinsurance

The Company has a reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty.

The transactions have been undertaken on a funds withheld basis, with the Company retaining legal ownership of the financial assets but transferring the risks and rewards of ownership to ageas SA/NV.

The funds withheld financial assets have been derecognised from the Company's statement of financial position in line with the derecognition criteria within IAS 39 Financial Instruments (see accounting policy (y)).

The premiums, claims and expenses which have been reinsured out of the Company under the arrangements during the year are:

	2022 £m	2021 £m
Written premiums ceded to reinsurers	(396.7)	(442.2)
Change in reinsurers' share of net unearned premium provision	(32.9)	(10.6)
Net insurance premium revenue	(429.6)	(452.8)
Commission income	140.5	165.4
Change in reinsurers' share of deferred acquisition costs	11.6	4.0
Reinsurers' share of claims and benefits incurred	294.0	268.9
	16.6	(14.5)

The balances in the statement of financial position relating to this arrangement are:

	2022 £m	2021 £m
Reinsurance unearned premiums	204.0	237.0
Reinsurance outstanding claims	495.6	480.4
	699.7	717.4

Notes to the financial statements

37 Related party transactions (continued)

Other related party transactions

In the ordinary course of business the Company carries out transactions with related parties as defined in IAS 24, Related Party Disclosures. Material transactions are set out below:

The Company's immediate parent undertaking is Ageas (UK) Limited.

The Company has subordinated debt with Ageas Insurance International N.V., the Company's intermediate parent undertaking, Ageas Insurance International N.V. also provides the Company with services in relation to Solvency II.

The Company has issued loans to Ageas (UK) Limited and Ageas Retail Limited, with maximum capacities of £15.0m and £100.0m respectively. On 20 March 2023 the Company restated both loans to extend the maturity dates to 7 September 2025. Both loans bear interest at 1.75% above the Bank of England base rate. There is also a non-utilisation charge at 0.56% of the undrawn portion of each loan facility. As at 31 December 2022 the outstanding loan due from Ageas Retail Limited was £70.0m (2021: £70.0m). There are currently no amounts outstanding on the loan issued to Ageas (UK) Limited (2021: £nil).

The majority of fellow subsidiary company transactions and balances are with Ageas Retail Limited ('ARL'), an insurance broker which is wholly owned by Ageas (UK) Limited. The Company pays ARL commission in relation to premiums brokered by ARL. The Company also receives rental income from ARL as it is the sitting tenant within Deansleigh House, Bournemouth. In addition, the Company seconds employees to ARL with the aggregate payroll costs in respect of these persons being £22.6m for 2022 (2021: £23.9m).

The Company provides administration and claims settlement services to its fellow subsidiary, Ageas Services (UK) Limited.

Up until the sale by Ageas (UK) Limited of its 50.1% share in Tesco Underwriting to Tesco Personal Finance plc on 5 May 2021, the Company recharged Tesco Underwriting Limited for staff costs for claims settlement services and paid commission in relation to underwriting business.

The Company holds a 51% controlling interest in HCP (Estate Management) Limited ('HCP'). HCP is limited by guarantee (the amount of the guarantee is £1) and has been formed without share capital.

	2022 Comp. income £m	2022 Financial Position £m	2021 Comp. income £m	2021 Financial Position £m
	(Expense)/ income	(Liability) / asset	Expense	(Liability) / asset
Immediate parent and intermediate holding company	(33.6)	(91.0)	(73.6)	(78.6)
Fellow subsidiary company transactions and balances	13.8	81.4	3.9	82.1
Defined benefit pension scheme transactions and balances	0.9	29.4	0.3	48.3
Grand total	(18.9)	19.8	(69.4)	51.8

Notes to the financial statements

38 Capital commitments

	2022 £m	2021 £m
Authorised and contracted for	7.7	21.7
	7.7	21.7

Authorised and contracted items relate to committed investments in infrastructure equity funds.

Authorised but not contracted items predominately relate to various technology upgrades.

39 Parent company

The Company's immediate parent company is Ageas (UK) Limited, a company incorporated in England and Wales whose registered address is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

The Company's results are consolidated into the financial statements of the ultimate holding company ageas SA/NV, a company incorporated in Belgium whose registered address is Markiesstraat 1 Box 7, 1000 Brussels.

Copies of the above financial statements can be obtained from the Company Secretary, Ageas Insurance Limited, Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

Independent Auditors' Report to the Members of Ageas Insurance Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Ageas Insurance Limited (the 'Company') for the year ended 31 December 2022 which comprise the statement of profit of loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence
Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 21 June 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ending 31 December 2021 to 31 December 2022. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

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 Company's ability to continue to adopt the going concern basis of accounting included:

- Review of the Directors going concern assessment. As a part of this we reviewed the Company's capital position to the solvency capital ratio as well as the Own Risk and Solvency Assessment ('ORSA'), reconciling current positions to the financial statements and challenged the future assumptions embedded within the solvency projection model for reasonableness. We have also checked that the modelling used for solvency is in line with industry standards.
- Reviewed and challenged the Company's current plans and budgets included in its forecasts, assessing growth assertions against published market assumptions as well as other assumptions relating to overheads, commissions, investment income and claims.
- We assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Company.
- Considered the impact of climate change on the Company's activities and its financial position based on our knowledge of the Company.
- Considered the accuracy of the Directors forecasting ability by comparing previous reporting periods budgets to current year actuals.

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

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

Independent Auditors' Report to the Members of Ageas Insurance Limited (continued)

Overview

Key audit matters	Valuation of Net Insurance contract provisions	2022 a	2021 a
Materiality	*Company financial statements as a whole* £16m (2021: £10.4m) based on 1.5% of Gross Written Premium (2021: 2% Net assets)		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters 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.

Key audit matter		**How the scope of our audit addressed the key audit matter**
Valuation of Net Insurance contract provisions Note 1(c), 1(e), 2 and 24 **Gross Insurance contract provisions (excl. UPR)** at 31 December 2022 amounted to £1,633.1m (31 December 2021: £1,594.3m). **Net Insurance contract provisions** at 31 December 2022 amounted to £828.9m (31 December 2021: £805.3m).	Net insurance contract provisions is made up of individual estimates on claims notified to the Company and claims incurred but not reported ('IBNR'), as well as the reinsurance share of insurance contract provisions. The valuation of net insurance contract provisions is a key area of estimation within the financial statements. IBNR modelling is reliant on: • The accuracy and completeness of relevant claims data being input into actuarial models; and • The application of appropriate actuarial techniques, judgements and assumptions, including the consistency	In assessing the valuation of the insurance contract provisions, we performed the following procedures: *Gross Insurance Contract Provisions* • We With the assistance of BDO's Actuarial team as audit specialist we performed the following: o Conducted independent projections of insurance contract reserves using appropriate claims data based on the type of peril as at 31 October 2022 with an updated analysis for year end and compared these with the Company's booked amounts in order to checked the booked insurance contract for reasonableness. o Performed a roll-forward on the methodology of the insurance contract to 31 December 2022. o Constructed an independent range of reasonable best estimates to evaluate the results of our reprojections. o Reviewed management's assumptions and methods to address the impact of following in the insurance contract provisions: ▪ Inflationary environment ▪ Weather events ▪ Whiplash Reforms ▪ Ogden Rate Changes o Assessed the methodology, significant judgements and assumptions applied by the Company's in-house actuarial team in the booked amounts for perils not reprojected, including Periodic Payment Orders against standard actuarial methods

	in development of paid to incurred ratios by peril and accident year. The Company has multiple reinsurance contracts in place. Reinsurance can be complex and result in inappropriate assumptions being used to determine the reinsurers share of insurance contract liabilities. We have therefore determined the valuation of net insurance contract provisions to be a KAM.	• Performed a review of managements calculation of the future claims handling provision. We challenged the methodology and assumptions by checking these are consistent with expected costs of future claims handling. • Performed testing on a sample of claims estimates for the perils where incurred data is appropriate, by agreeing the case estimates to relevant supporting documentation (legal correspondence and loss adjuster forms) to verify the correct recording and valuation of claims estimates. • Tested controls over long tail outstanding claims relating to second review of new claim estimates or movements and static claims reviews. • We have tested the underlying data used in the insurance contract provisions calculation and the data provided to our actuarial specialists to perform their calculation by checking the completeness and accuracy of the data inputs by matching to the Company's accounting records which we have tested on a sample basis as part of our audit.. • Tested a sample of movements post-year end to the relevant claims estimate documentation to verify whether these adjustments were accounted for in the appropriate period. • Performed testing on a sample of claims paid in the year for the perils where claims paid data was appropriate basis for actuarial projections and agreed items to supporting claims payment evidence such as invoices, loss adjustor reports, settlement agreements and further verified the payment to cash. • Agreed a sample of short tail claim reserve movements post year end to the relevant claims estimate documentation to verify whether these adjustments were accounted for in the appropriate period. **Valuation of Reinsurance share of insurance contract liabilities:** • Reviewed the netting down methodology and assumptions of the gross insurance contract provisions for the impact of the excess of loss and quota share reinsurance to arrive at the net insurance contract provisions with the assistance of BDO's Actuarial team. • Reperformed, for a sample of claims, the calculation of reinsurance share of outstanding claims by reference to the excess of loss agreements. • Agreed a sample of quota share and excess of loss reinsurance arrangements to contracts, assessing whether the percentages and coverage period were valid and accurate. • Reperformed the calculation of reinsurance share of outstanding claims by reference to the group quota share agreement. **Key observations:** We consider that the data used in the net insurance contract provisions, as well as, assumptions and judgements made by management in valuing the net insurance contract provisions are appropriate.

Independent Auditors' Report to the Members of Ageas Insurance Limited (continued)

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Company financial statements	
	2022 £m	2021 £m
Materiality	£16m	£10.4m
Basis for determining materiality	1.5% of Gross Written Premiums	2% of Net Assets
Rationale for the benchmark applied	A benchmark of Gross written premiums was used as the Company's principal activity is the provision of general insurance and thus the collection of premiums with an obligation to pay claims. We have determined gross written premiums as an appropriate benchmark as it is stable and a key performance indicator for the users of the financial statements.	A benchmark of net assets was used to calculate materiality, as this is considered the primary financial measure that key stakeholders, will monitor to assess the solvency of the Company.
Performance materiality	£12m	£6.8m
Basis for determining performance materiality	75% of Materiality	65% of Materiality
Rationale for the percentage applied to performance materiality	This was reflective of our perceived risk of the financial statements containing misstatements.	This was reflective of our perceived risk of the financial statements containing misstatements, taking into account the risks in first year audit engagements.

Specific materiality
The Company has in place a significant amount of quota share reinsurance in the year ended 31 December 2022, a 40% overarching quota share agreement. These arrangements have the effect of transferring insurance premium and insurance contract liabilities to the reinsurers. This year, due to the extent of these arrangements, we felt it was appropriate to set a level of materiality for the financial statements as a whole to determine the extent of audit procedures to be applied over gross premiums and claims before these reinsurance arrangements. A lower, specific, level of materiality has been set for transactions and balances not affected by quota share reinsurance. We determined materiality for those items not affected by quota share reinsurance to be items £7.7m based on 2% of Net Assets. We further applied a performance materiality level of 75% of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £850,000 (2021: £313,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditors' Report to the Members of Ageas Insurance Limited (continued)

Other information

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

Other Companies Act 2006 reporting.

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in Statement of directors' responsibilities in respect of the financial statements, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of Ageas Insurance Limited (continued)

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.

Extent to which the audit was 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:

Non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Legal and regulatory frameworks determined most significant are:
- Companies Act of 2006.
- Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).
- UK adopted international accounting standards.
- Bribery Act

Non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We performed procedures including:
- Obtaining an understanding of the legal and regulatory framework applicable to the Company's operations.
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.
- Inspecting correspondence with the PRA and FCA for any instances of non-compliance with laws and regulations;
- Enquiring of the of those charged with governance of any instances of non-compliance.
- We reviewed the ORSA for any evidence of non-compliance with the PRA Solvency II regulations.

Fraud
We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:
- Enquiring of those charged with governance, internal audit and management as to whether they have knowledge of any actual, suspected or alleged fraud.
- Review of Board, Audit Committee, Investment Committee and Reinsurance Committee meeting minutes and correspondence with regulatory authorities throughout the year for any known or suspected instances of fraud.
- Identifying any unusual journal entries based on criteria that are indicative of a high risk of fraud.
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.
- Obtain an understanding of the control environment in monitoring compliance with laws and regulations.
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Independent Auditors' Report to the Members of Ageas Insurance Limited (continued)

Based on our risk assessment, we considered the areas most susceptible to fraud to be valuation of insurance contract provisions, management override of controls, valuation of deferred tax assets and manual journal entries related to revenue recognition.
Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Testing a sample of manual revenue journal entries to third party information to ensure that they are not indicative of management bias;
- Engaged internal tax experts to assist in our work on the valuation, existence and accuracy of deferred tax assets; and
- Engaged actuarial specialists to review the assumptions and methodology applied by the Company in the valuation of insurance contract provisions and perform reprojections of the insurance contract provisions to verify the methods utilised are appropriate and are not indicative of management bias. (Refer to the key audit matters section)

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

DocuSigned by:
Alexander Barnes
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Alexander Barnes (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5 April 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).