TESCO UNDERWRITING LIMITED

Annual Report and Financial Statements
For the 12 months ended 28 February 2023

Registered number 6967289

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TESCO UNDERWRITING LIMITED

Directors and Advisers

Directors

Simon Machell
Margot Cronin
Caroline Ramsay
Gary Duggan
Paul Cartin (appointed 1 July 2022)
Stephen Grainge (resigned 30 June 2022)

Company Secretary

Gail Stivey

Registered Address

The Omnibus Building
Lesbourne Road
Reigate
Surrey
RH2 7LD

The Registered Office was changed from London Court, 39 London Road, Reigate, Surrey, RH2 9AQ with effect from 1 December 2022.

Registered Number

06967289
Registered in England and Wales

Independent Auditor

Deloitte LLP
1 City Square
Leeds, LS1 2AL
United Kingdom

Bankers

HSBC Bank Plc
165 High Street
Southampton
SO14 2NZ

TESCO UNDERWRITING LIMITED

Strategic Report

The directors present their Strategic Report and Directors' Report, together with the audited financial statements for the 12 months ended 28 February 2023. Comparative figures for 28 February 2022 represent a 14-month period.

Activities

During the period Tesco Underwriting Limited ('the Company' or 'Tesco Underwriting (TU)' continued its underwriting of personal lines insurance business (car and home) distributed by Tesco Personal Finance plc ('Tesco Bank').

Results

The results of the Company are contained in the Financial Statements on pages 21 to 55. The profit before taxation during the period to 28 February 2023 was £43.4m (2022: £20.4m). Additional explanation is included in the Business Review later in this report. The profit for the period included within retained earnings was £35.7m (2022: £16.6m). There was a decrease in the market value of investments compared to their carrying value that decreased the fair value reserve after tax by £35.1m (2022: £29.1m).

Financial Position

At the end of the period total assets were £965.0m (2022: £988.1m) with financial investments being £574.7m (2022: £599.6m). Financial investments are fixed rate debt securities and a property fund. Cash and cash equivalents were £45.9m (2022: £64.5m), reinsurance assets £216.9m (2022: £245.1m) and insurance and other receivables £95.4m (2022: £52.0m).

Total liabilities at the end of the period were £807.9m (2022: £831.7m) with insurance contract provisions of £602.6m (2022: £647.5m) and loans and borrowings of £42.8m (2022: £42.5m).

Solvency

At 28 February 2023 the Company had unaudited Solvency II own funds of £195.2m (2022: £180.6) compared to a Partial Internal Model (PIM) Solvency Capital Requirement (SCR) of £122.8m (2022: £121.1m) and the coverage ratio was 159.0% (2022: 149.1%).

Strategic Direction

The Company is an insurer authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. It was established to underwrite Tesco branded car and home insurance policies, introduced to it by Tesco Bank. The Company is 100% owned by Tesco Bank.

The overall role of the Company is to support the Tesco Bank personal lines insurance strategy through offering products that have a strong emphasis on value, helpful benefits and rewarding loyalty, whilst driving financial returns for its shareholder by maintaining strong underwriting, risk and financial controls.

The vision for the Company is to be the "Insurer of choice for Tesco Customers" whilst the overall role for the Company is to maintain a profitable position within the UK personal lines car and home market supporting the Tesco Bank personal lines insurance strategy. To support delivery of the company vision the business has undertaken the "insurance transformation programme". This investment spans the whole operation; foundational technology builds, pricing improvements, customer relationship management tools and new proposition development.

Business Review

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

- Gross premiums written
- Profit/(loss) before taxation
- Operating ratio
- Return on capital after tax
- SCR coverage ratio

The Board also uses a number of other key indicators to assess the performance of individual parts of the business, including details on the number of policies underwritten, net promoter score and various performance ratios. The policies in force for the Company were 1,205k at 28 February 2023 (2022: 1,025k). The Company's net promoter score was on target at 65 (2022:70). Net promoter score is administrated by an independent organisation (KPMG) by measuring policyholder responses as per industry standards.

	12 months ended 28 Feb 2023	14 months ended 28 Feb 2022	% Change
	£m	£m	%
Gross Premiums Written	326.7	346.6	(5.7%)

Gross premiums written for the 12 months up to 28 February 2023 were 5.7% lower than the 14 months reported for 2022 reflecting 2 months less reported income offset by a growth of 17.6% in policies. The Company continues to be a disciplined underwriter with a clear return on capital target set by the shareholder and pricing will reflect this.

	12 months ended 28 Feb 2023	14 months ended 28 Feb 2022	% Change
	£m	£m	%
Profit Before Tax	43.4	20.4	112.7%

Profit before taxation is the key performance measure for the Company which aims to deliver sustainable growth in profits over the insurance cycle by risk selection at appropriate rates, rigorous expense control and delivery of superior customer service to its policyholders.

The performance in the period was £43.4m before taxation and reflects an increase in profitability from 2022.

The Company intends to continue its policy of maintaining strong underwriting and pricing controls and will take appropriate action to maintain profitability moving forward.

	12 months ended 28 Feb 2023	14 months ended 28 Feb 2022	Change
Operating Ratio	77.0%	91.2%	(14.3%)

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

The operating ratio improved against 2022 by 14.3%. The favourable movement in the year relates to reduced uncertainties from the Covid-19 lockdowns alongside the commutation of a reinsurance contract (refer note 7) despite increased inflation pressures.

	12 months ended 28 Feb 2023	14 months ended 28 Feb 2022	Change
Return on capital after tax	22.8%	10.3%	12.5%

Return on capital after tax is a measure of the efficiency with which the Company uses its shareholders' equity. This is measured by taking profit after tax over average shareholders' equity for the 12-month period adjusted for any dividends that have been paid.

The Company reported a profit before income taxes of £43.4m for the 12-month period. The underlying performance of the motor portfolio continue to show both capped and large claims at broadly expected levels. Within the home portfolio the current period result was impacted by subsidence claims in the summer and escape of water losses from December 2022.

Principal Risks and Uncertainties

The Company's principal risks and uncertainties and the way that these risks are managed are detailed in note 2 to the financial statements. Given the Company's business as a motor and home insurer the main risks it faces relate to insurance, market, credit, liquidity, operational and capital management risks. The procedures to control these risks are embedded into decision making via the Company's risk management framework and are expressed through the Company's risk appetite statements and its risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. During 2022 and 2023 the Management Risk Committee's reports have been provided to the Board Risk Committee which focuses on consideration of top risks including climate change.

Environment

The Board has also allocated Senior Management Function (SMF) responsibility for managing Climate Change risks to its Chief Risk Officer. In its supervisory statement PRA SS3/19, together with subsequent regulatory correspondence, the PRA sets out how firms should enhance their approach to managing climate related financial risks.

Strategic Report (continued)

The Company has established a cross functional Climate Change Working Group who has identified a comprehensive set of key climate related financial risks, the details of which were shared with the Board Risk Committee. Several Climate Change financial risks are already managed as part of the existing risk management frameworks, and impact assessments from the Reinsurance and Investment Committees, shared with the Board Risk Committee, confirmed climate change was a key consideration for both areas.

At the end of 2021, an external review confirmed that TU had delivered regulatory requirements with action plans in place to take further action in 2023 across investments, reinsurance, pricing, underwriting, claims and procurement. TU continues to monitor the carbon footprint of its investment portfolio.

The Board is also monitoring the longer-term transition risks arising from the changing Climate relating to the personal lines insurance market and has received regular Climate Change reporting as well as TU Board education on the developing environment.

Section 172 Statement

S172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

In discharging its s172 duties, the Board has regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board aims to provide a balanced approach to its decisions taking into consideration the Company's key stakeholder requirements. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board looks to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to Senior Management to set, approve and oversee execution of the Company's strategy and related policies. The Board reviews matters relating to financial and operational performance; business strategy; key risks; stakeholder-related matters; compliance; and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at Board meetings.

Engaging with its stakeholders is key to the way the Company runs its business and is an important consideration for the Directors when making relevant decisions. Details of how the Directors engage with colleagues and have regard to the need to foster relationships with suppliers, customers and other key stakeholders can be found in the section below on **Stakeholder Engagement Statements**.

The Board has made some strategic decisions during the year ended 28 February 2023 where due consideration was given to the Company's key stakeholders, including:

Motor Claims Supply Chain
The selection of a new supplier for the Claims Motor Supply Chain involved a detailed tendering process. The potential suppliers were considered against defined weighted criteria including customer journey, indemnity costs, digital journey and partnership. Customer journey was considered the most critical element. FMG was chosen as the new supplier against the defined criteria which focussed on securing the strongest customer experience combined with the best commercial offering and most effective implementation support. At the heart of the decision was the impact on customers but impact on colleagues in terms of training for the transition was considered together with shareholder impact surrounding the commerciality of the decision such as indemnity costs and operating expenses. The decision weighting included business sustainability factors and as such ensured that consequences in the long term were factored in.

Continuing to Optimise the Insurance Business
The Board recognises the continued importance of insurance to Tesco customers and the need to build on the solid foundation to support sustainable insurance policy growth. To support this aspiration the Insurance Transformation Programme ('ITP') was established, which is a programme jointly supported by Tesco Personal Finance plc. The ITP is a series of technology and propositional deliverables designed to improve outcomes for customers, colleagues and the wider Tesco business. The Board has continued oversight of the ITP progress, as it relates to TU, and supports the approach that all the propositional work is built based on customer feedback.

In a collaborative effort between TU and Tesco Personal Finance plc, during the financial year 2022/23, the ITP delivered a new rating engine for motor pricing which enables TU to remove some of the technical limitations of tabular based rating structures; enable the implementation of machine learning techniques and develop the pricing of new products at speed for customers. Across the Home insurance book, the first phase of an initiative (Click and You're Covered) was developed to enable customers with an existing Motor insurance policy to receive an even faster and convenient opportunity to receive a home quote. Colleagues play a pivotal role in driving forward the ITP and the continued feedback and engagement with customers helps to iterate and refine the deliverables required.

New Office Premises
The expiry of the Reigate office lease provided the opportunity for the Board to review whether the property remained appropriate for the business. Consideration was given to the new blended working arrangements which had emerged following the Covid-19 pandemic and thus use of the building by colleagues and colleagues' needs whilst in the office were a key factor. Environmental considerations were taken into account particularly as the existing office required some changes to bring it to an appropriate standard for environmental efficiency.

Strategic Report (continued)

Stakeholder Engagement Statements

The Company has a number of key stakeholder groups whom it actively engages. Listening to, understanding and engaging with these stakeholder groups is an important role of the Board in setting strategy and decision making. The Company recognises its obligations and requirements to be a well-controlled insurance underwriter, compliant with regulation and delivering good customer outcomes. The Regulators are consulted and kept closely informed in relation to key decisions made by the Board, as appropriate.

Our Shareholder
As a wholly owned subsidiary of Tesco Personal Finance plc, TU's strategy continues to be aligned to Tesco Personal Finance plc in order to support the Tesco commitment to the UK insurance market and to Tesco customers. The Board uses its relationship with Tesco plc and Tesco Personal Finance plc to make use of rich customer data, a strong brand and a Clubcard loyalty programme to better serve customers. TU has a strong relationship with Tesco Personal Finance plc, with regular updates and meetings taking place in relation to performance and strategy. The Chief Executive Officer of TU has a dual hatted role and is also the Chief Insurance Officer of Tesco Personal Finance plc. Shareholder Reserved Matters have been agreed to define certain matters which require shareholder concurrence.

Our Customers
Customers are at the heart of the Company's business and it is important to the Company to maintain a high standard of business conduct. During the year customer interests remained a key priority for the TU Board and customer experience reports have continued to be provided on a quarterly basis.

At TU, we strive through a customer centric approach to ensure we conclude claims quickly and fairly for our customers to deliver the best possible outcomes. We maintain at all times a keen focus on treating customers fairly and ensure our products provide value for money. Our flexible approach to meeting the needs of a diverse customer base, including specific consideration of the needs of vulnerable customers, has ensured we are well placed to respond quickly and meaningfully to the needs of our customers. Throughout the year we continually engaged with our customers and considered their feedback through 'Voice of the Customer' work, allowing us to draw out themes and issues and target improvement actions accordingly to improve customer service.

A number of digital solutions continue to enhance and simplify the end-to-end customer experience.

Our Suppliers
We ensure suppliers who provide services are able to do so without detriment to our customers, employees, community and the environment and we have carried out robust oversight measures to ensure this is the case. These measures are governed by our Outsourcing and Supply Chain Management Framework which includes detail of how we assess supplier performance and ensure their operating standards are robust. These supplier assessments are conducted to a set timetable and reported quarterly to the Board.

Our Colleagues
Colleague engagement has been a key area of focus during the year as the business embarked on and progressed through its journey to adopt agile methodology and a new operating model. Regular communications were shared with colleagues to explain the changes and the impacts across the business. Colleagues were given the opportunity to attend the "Tesco Bank Expo", an all-colleague conference, join calls with the Tesco Bank Executive (known internally as Big Conversations) which included the opportunity to ask questions and smaller listening groups, facilitated by TU Executive Committee. Towards the end of the year Protect Value Stream Roadshows were held to bring together Insurance colleagues across the Tesco Personal Finance plc and Tesco Underwriting businesses. The Roadshows facilitated the celebration of achievements during 2022 and provided the chance to share the strategy and plans for the year ahead.

Employees are invited to provide feedback and to actively participate through continued use of engagement surveys (known as Every Voice Matters). The key themes emanating from the surveys are brought to the attention of the TU Executive Committee and Board, with resulting actions tracked. During the 12 months up to 28 February 2023 the response rate continued to be high and employee engagement scores were moderate to high across the business. The increase in cost of living during the year has impacted colleagues and in acknowledgement of this pay discussions were brought forward and this resulted in salary increases of £1,250 for all Work Level ('WL')1 and WL2 colleagues with effect from 8 January 2023. A review of benefits packages was undertaken in conjunction with Tesco plc and included the opportunity for colleagues to contribute their views. The findings of the review continue to be progressed against a challenging cost backdrop.

TU has established and promotes a culture where employees have the confidence and ability to raise their concerns. 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 whistleblowers' champion has been apportioned responsibility for oversight of TU whistleblowing policies and procedures, and a report to the TU Board Audit Committee during the year confirmed that the systems and controls in place were satisfactory. The effectiveness of these controls will continue to be monitored and reported going forward.

The Company is committed to a culture which is inclusive, supports diversity and ensures all stakeholders are treated fairly. Recruitment, promotion, career development, selection for training and any other aspects of employee management of all employees are free from discrimination, including on the grounds of gender, ethnicity, disability, age, sexual orientation, marital status, and other protected characteristics. The TU Board has set the policies and standards within which the Company will operate, and the approach to diversity and inclusion is monitored regularly by the TU Board. Given the focus, it was pleasing TU met its targets under the Women in Finance Charter ahead of the 2020 deadline, with 40% of women in senior management roles.

Our Community
Tesco Underwriting, as part of the Tesco Personal Finance plc group, has continued to support local communities. Charity partners, who were chosen through a colleague vote for the period to 28 February 2023, were Maggie's and The Trussell Trust. Colleagues are able to take up to two days to volunteer for community causes.

This report was approved by the Tesco Underwriting Board of Directors on 28 April 2023 and signed on its behalf by:

Gail Stivey
Company Secretary

TESCO UNDERWRITING LIMITED

Directors' Report

Position as at 28 February 2023

Financial Position and Results

The Company's position and results are shown in the Strategic Report on page 3.

Future developments, principal risks, uncertainties and regulatory changes are considered and described within the strategic report.

Disclosure of information to auditor

The Members of the Tesco Underwriting Board are shown on page 2. The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Required actions from prior year external audit report findings relating to control deficiencies, including those impacting IT controls related to the primary underwriting system, general ledger and claims system have been remediated during the year.

Creditor payment policy

Refer 'Our Customers' and 'Our Suppliers' within the Strategic Report.

Business Ownership

Tesco Underwriting is a wholly owned subsidiary of Tesco Personal Finance plc and forms part of the Tesco Personal Finance plc group.

Inflationary pressures

The Company has been subject to the same inflationary pressures being felt across the UK and the world. Managing this has led to an increase in premium pricing for consumers to offset some of the additional costs relating to claims on the motor and home portfolios. Inflation increases has also seen an upside in increased returns and interest from investments held. Given the overall position, the Company has assessed that the risks are limited and manageable within the context of its existing plans, with minimal additional actions needing to be taken.

Future Developments

The Company plans to continue with its existing role in the UK insurance market and for Tesco insurance companies as part of the Tesco Personal Finance plc ongoing commitment to the UK insurance market and to Tesco customers.

The overall role of the Company is planned to support the Tesco Personal Finance plc personal lines insurance strategy through offering products that have a strong emphasis on value, helpful benefits and rewarding loyalty, whilst driving financial returns for its shareholder by maintaining strong underwriting, risk and financial controls.

The vision for the Company is to be the "Insurer of choice for Tesco Customers" whilst the overall role for the Company is to maintain a profitable and growing position within the UK personal lines car and home market supporting the Tesco Personal Finance plc personal lines insurance strategy. To support delivery of the company vision the business has undertaken the "insurance transformation programme". This investment spans the whole operation; foundational technology builds, pricing improvements, customer relationship management tools and new proposition development.

Climate Change

The approach to managing Climate Change from a risk perspective is set out on page 4.

	2023			2022		
	Total	Utilities	Travel	Total	Utilities	Travel
Co2e tonnes	476.8	438.9	37.9	561.9	553.1	8.8
Co2e tonnes per FTE	1.4	1.3	0.1	1.8	1.8	0.0

The figures represent TU's carbon footprint in the financial period to 28 February 2023. The calculations use emission factors from Defra's GHG Conversion Factors for Company Reporting as published by the UK government : https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021. Emissions from utilities are considered to be Scope 2 and Travel emissions are considered as Scope 3.

The total Co2e tonnes per FTE has been assessed to be 1.4 (2022: 1.8). This is an assessment of energy usage within the 2 offices in Newcastle and Reigate and business travel. During the year to 28 February 2023 office usage was reduced as Tesco Underwriting adopted a blended working model and smaller office premises were obtained for Reigate.

The responsibility for managing the risks of Climate Change has been allocated to the Chief Risk Officer. A cross functional Climate Change Working Group including representatives from Underwriting, Claims, Finance and Risk has been established. The Working Group has identified a comprehensive set of key climate related financial risks, the details of which were shared with the Board Risk Committee. Several climate financial risks are already managed as part of the existing risk management frameworks, and impact assessments from the Reinsurance and Investment Committees shared with the Board Risk Committee confirmed that Climate Change was a key consideration for both areas.

From an underwriting perspective, controls in relation to exposure from natural catastrophes including flood, rainstorm, windstorm, coastal, and rivers are being assessed. TU is considering a defined approach to transition risks as petrol and diesel vehicles are phased out and replaced by electric over the next decade. The claims team are focussed on third party supplier exposure to Climate Change risk as well as supply chain costs increasing due to new technology in vehicles.

TU is ensuring that reinsurance is diversified in the face of Climate Change and monitoring counterparty exposure in line with current expressed limits. Credit rating exposure to specific reinsurers are being measured and monitored, ensuring that the minimum credit rating of reinsurers is 'A-' and that the highest rated reinsurers are used for highest risk covers. Reinsurance market developments are being monitored to ensure capital availability and continuity of renewal.

Investment guidelines have been updated to include Environment, Social, Governance (ESG) considerations. This includes implementing ESG limits including those related to carbon footprint and demonstrating the monitoring of ESG in investment guidelines.

Climate Change is being considered in risk assessments and reviewed as part of operational resilience planning. TU has embedded Climate Change monitoring in governance committees and has considered Climate Change in its latest ORSA scenario analysis. At the end of 2021, an external review confirmed that TU had delivered regulatory requirements with plans in place to take further action across investments, reinsurance, pricing, underwriting, claims and procurement. TU continues to monitor the carbon footprint of its investment portfolio. Further developments relating to Climate Change are included within the Stakeholder Engagement Statements.

The Board is also monitoring the longer-term transition risks arising from the changing Climate relating to the personal lines insurance market and has received regular Climate Change reporting as well as TU Board education on the developing environment.

Employee involvement

The Company keeps employees up to date on strategy and performance through a variety of channels. Further details are included within the Strategic Report. The average number of persons employed in the United Kingdom by the Company during the period was 338 (2022: 335). The full-time equivalent number of employees adjusted for part time staff was 327 (2022: 322). The salary costs for 2022/23 were £19.9m (2021/22: £19.5m). An analysis of staff numbers is shown in note 26.

Diversity and Inclusion

The Company is committed to a culture which is inclusive and supports diversity. Recruitment, promotion, career development, selection for training and any other aspects of employee management of all employees are free from discrimination, including on the grounds of gender, ethnicity, disability, age, sexual orientation, marital status and other protected characteristics. We are working to become a disability Confident Leader by 2023/24. As part of our commitment the Company works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help them work effectively within the business. The TU Board have set the policies and standards within which the Company will operate, and our approach to diversity and inclusion is monitored regularly by the TU Board. The TU Board places a high emphasis on ensuring the development of diversity across the business and has signed up to the HM Treasury's Women in Finance Charter and supports various internal initiatives such as the Women in Insurance Programme, and our Diversity and Inclusion Policy, TUEveryone.

Directors' Indemnities

In terms of Section 236 of the Companies Act 2006, all Executive and Non-Executive Directors have been issued a Qualifying Third-Party Indemnity Provision by TU. All Qualifying Third-Party Indemnities were in force at the date of approval of the Financial Statements and shall remain in force without any limit in time. This will not be affected by the expiration or termination of a Director's appointment, however it may arise.

Charitable donations

Charitable donations paid by TU in the period amounted to £0 (2022: £10,000).

Post balance sheet events

There were no events after the reporting date which have required either adjustment or disclosure in these Financial Statements.

This report was approved by the Tesco Underwriting Board of Directors on 28 April 2023 and signed on its behalf by:

Gail Stivey
Company Secretary

Registered Address
The Omnibus Building
Lesbourne Road
Reigate
Surrey
RH2 7LD

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and IFRSs as issued by the International Accounting Standards Board (IASB).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Tesco Underwriting Limited

Report on the audit of the financial statements

1. Opinion

In our opinion, the financial statements of Tesco Underwriting Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 28 February 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the significant accounting policies; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2. Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current period were: • the valuation of insurance contract provisions and associated reinsurance recoveries; and • the disclosure of the impact of the adoption of IFRS 17. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current period was £3.1m which was determined on the basis of 2% of net assets.
Scoping	Audit work to respond to the risks of material misstatement within the company was performed directly by the audit engagement team.
Significant changes in our approach	In line with the Company's transition to IFRS 17 *Insurance Contracts* on 1 March 2023, we deemed the disclosure of the impact of the adoption of IFRS 17 as a key audit matter, as this is a new and complex accounting standard.

4. Conclusions relating to going concern

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

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

- obtaining an understanding of relevant controls around management's going concern assessment;
- assessing the company's compliance with regulation, including capital requirements;
- reviewing the Own Risk and Solvency Assessment (ORSA) to support our understanding of the risks faced by the company;
- inspecting correspondence between the company and its regulators, Financial Reporting Council ("FCA") and Prudential Regulation Authority ("PRA"), as well as reviewing relevant Board and Committee minutes to identify any potential areas of legislative or regulatory non-compliance that could impact upon going concern;
- assessing the assumptions used in the forecasts prepared by management, and their historical accuracy; and,
- assessing the financial position and prospects of the wider Tesco Group to which the company is operationally linked.

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.

5. Key audit matters

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

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

5.1. Valuation of insurance contract provisions and associated reinsurance recoveries

Key audit matter description	The company's gross insurance contract provisions total £602.6m as at 28 February 2023 (£647.5m as at 28 February 2022), with reinsurance assets of £216.9m (£245.1m as at 28 February 2022). Under IFRS 4 *Insurance Contracts,* provisions are required to be recognised for expected incurred losses on claims occurring prior to the period end. Estimating these provisions is inherently subjective and requires the use of complex models and the consistent application of judgment and estimation using appropriate methodologies and assumptions. Within gross insurance contract provisions, bodily injury (BI) claims relating to motor insurance policies represent the most significant area of management judgment and materiality to the Company's financial position. Our key audit matter is focused on the key assumptions in the reserving for large BI claims. These include, frequency, severity, the sufficiency of the allowance for excess future inflation, and the appropriateness of reinsurance recovery assumptions. Management uses a range of IT systems to maintain data used in the reserving models, including the primary underwriting and claims system. Given the material impact of the significant judgements taken by management in the measurement of the insurance contract provisions and associated reinsurance recoveries, we also consider there is an inherent risk of fraud through manipulation of this balance. Notes 1 and 16 of the financial statements provide further detail on critical judgements and key sources of estimation uncertainty in relation to this matter.

How the scope of our audit responded to the key audit matter	Our audit work to address the key audit matter included the procedures noted below. We obtained an understanding of relevant controls in the process of estimating the reserves. Together with our IT specialists, we obtained an understanding of general IT controls across the premiums, claims and reserving cycles, as well as the general ledger. With the involvement of our actuarial specialists, we have performed the following procedures: • obtained and inspected the reserving reports from management, and assessed and challenged methodologies and key assumptions; • calculated an acceptable range of independent projection of the large BI claims that reflects various sources of uncertainty in the current environment, as well as company-specific uncertainties; • assessed the reasonableness of any differences noted between our independent projected range and management's results; • reviewed management's roll forward of results from the pre year end full reserving review to the year end; • tested the reconciliation of paid and incurred claims development data to the policy administration system and general ledger; and • evaluated paid, incurred and outstanding case reserves by checking correspondences and policy documents include in the policyholders' files, where this data was used in reserving.
Key observations	Based on our audit procedures above, we concluded that insurance contract provisions and associated reinsurance recoveries are not materially misstated. We reported findings and observations on internal controls to the Audit Committee, with recommendations for improvement .

5.2. Disclosure of the impact of the adoption of IFRS 17

Key audit matter description	On 1 March 2023, the Company adopted IFRS 17 *Insurance Contracts* which replaced the existing standard for insurance contracts, IFRS 4. The estimated transitional impact is disclosed in Note 1 to the financial statements in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The disclosures in the current year are intended to provide users with an understanding of the estimated impact of the new standard and, as a result, are more limited than the disclosures to be included in the first year of adoption, being the year ended February 2024. Note 1 sets out the qualitative and quantitative IFRS 17 information, including the relevant recognition and measurement requirements of the standard, the accounting policies which will be applied on its adoption, and the balance sheet impact at the transition date, 1 March 2022. Estimating the balance sheet impact at transition date

	requires the use of calculation models, including those related to PAA eligibility assessment, risk assessment, and ENIDs. The Company has disclosed that they will adopt the full retrospective approach on transition to IFRS 17 and will apply the Premium Allocation Approach (PAA) to the measurement of groups of insurance contracts issued and groups of reinsurance contracts held at the transition date. We have deemed the disclosure of the impact of the adoption of IFRS 17 a key audit matter, as this is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. Furthermore, the new standard has introduced a number of significant changes, including new requirements regarding the measurement and presentation of insurance contracts and related account balances and classes of transactions. In order to meet the requirements of the new standard, significant changes have also been made to the systems, processes and controls with effect from 1 March 2023.
How the scope of our audit responded to the key audit matter	While further testing of the financial impact will be performed as part of our 2024 year end audit, we have performed the following audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have: • obtained an understanding of the relevant controls governing management's estimate of the transitional adjustment; • challenged the appropriateness of key technical accounting decisions, judgements, assumptions and elections made in determining the estimate to assess compliance with the requirements of the standard. We involved our actuarial specialists to challenge the company's IFRS 17 calculation models, including those related to PAA eligibility assessment, risk assessment, and ENIDs; • audited the incremental data and other information required for IFRS 17 calculations; and • tested the IAS 8 disclosures related to the transition impact and reconciled the disclosed impact to underlying accounting records.
Key observations	Based on the procedures described above, we consider the IFRS 17 transition disclosure to be reasonable.

6. Our application of materiality

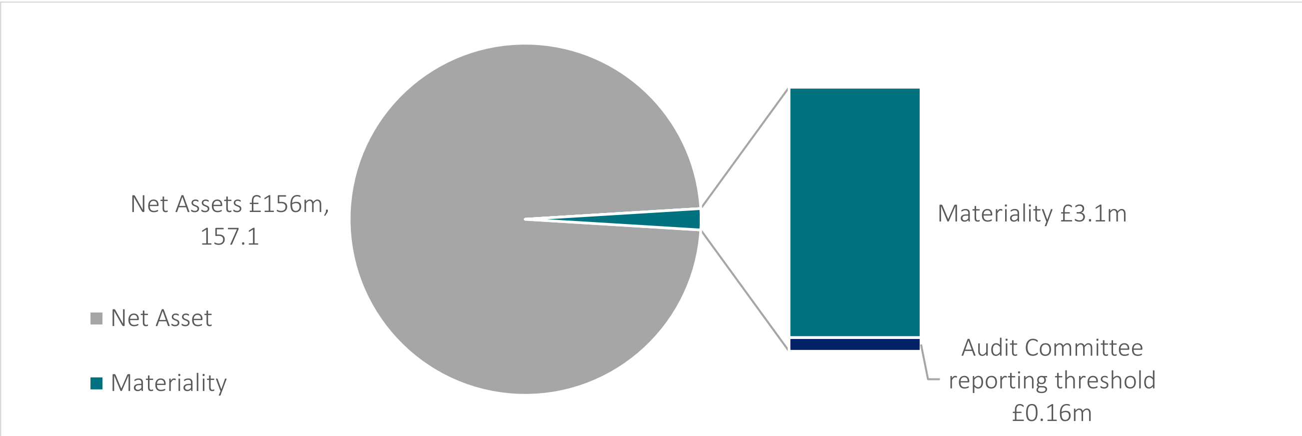
6.1. Materiality

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

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

Independent Auditor's Report to the Members of Tesco Underwriting Limited

Materiality	£3.1m (2022: £3.5m).
Basis for determining materiality	Materiality has been determined as 2.0% of net assets (2022: 1.0% of gross premiums written).
Rationale for the benchmark applied	We consider net assets to be the critical benchmark of the performance of the company given the importance for an insurance company to meet capital requirements. We have also considered the decline in significant gross written premium growth when changing the materiality benchmark, and the relevance of gross written premium in the financial statements will decrease after adoption of IFRS 17.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and whether we were able to rely on controls;
- identified control deficiencies; and
- the nature, volume and size of misstatements in the previous audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £155,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor’s Report to the Members of Tesco Underwriting Limited

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control, and assessing the risks of material misstatement. The company is organised as one entity and therefore our audit work to respond to the risks of material misstatement was conducted directly by the audit engagement team. Where the company is reliant upon IT applications provided by the wider Tesco group, we instructed our IT specialists to conduct work upon these systems as detailed below.

7.2. Our consideration of the control environment

The company is reliant upon the effectiveness of several IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately.

We involved our IT specialists to obtain an understanding of general IT controls across the premiums, claims and reserving cycles, as well as the general ledger, and we were able to rely upon these controls. We have also tested manual controls over premiums, claims, reserving, and the financial statement close process.

There were number of control deficiencies identified in prior year related to the primary underwriting system, and in relation to supporting reconciliation controls performed by management in reserving, investments, and reinsurance business cycles. Management rectified these deficiencies and we were able to rely upon the operating effectiveness of controls related to claims paid and premiums received during the year.

As discussed on the key audit matters section, we reported all of our findings and observations on internal controls to the Audit Committee, together with recommendations for improvement.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company’s business and its financial statements.

The Company continues to develop its assessment of the potential impacts of environmental related risks, including climate change. As a part of our audit, we have held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Company’s financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the Company’s account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;

- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating, and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, valuations, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of insurance contract provisions and associated reinsurance recoveries.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included regulatory solvency requirements and environmental regulations.

11.2. Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

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

Independent Auditor's Report to the Members of Tesco Underwriting Limited

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

Report on other legal and regulatory requirements

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

In our opinion, 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 any material misstatements in the strategic report or the directors' report.

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

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Independent Auditor's Report to the Members of Tesco Underwriting Limited

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Company at its general board meeting on 25 May 2021 to audit the financial statements of the Company for the period ending 28 February 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering periods from our appointment through to the period ended 28 February 2023.

14.2. Consistency of the audit report with the additional report to the audit committee

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

15. 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.

M. Bainbridge

Matthew Bainbridge

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

29 April 2023

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of comprehensive income

For the period ended 28 February 2023 (2022 comparative is 14-month period)

	Note	2023 £m	2022 £m
Gross premiums written	3	326.7	346.6
Change in the gross provision for unearned premiums	3	(17.4)	(4.1)
Gross insurance premium revenue		309.3	342.5
Written premiums ceded to reinsurers	3	(148.0)	(150.9)
Reinsurers' share of change in the provision for unearned premiums	3	8.8	1.7
Net insurance premium revenue		170.1	193.3
Investment income	4	9.9	18.8
Other operating income	5	4.2	3.4
Net income		184.2	215.5
Claims and benefits incurred	6	(187.5)	(233.1)
Reinsurers' share of claims and benefits incurred		71.3	99.1
Net policyholder claims and benefits incurred		(116.2)	(134.0)
Net acquisition costs	7	8.3	(17.5)
Administration costs	8	(30.4)	(41.7)
Operating profit		45.9	22.3
Finance costs	9	(2.4)	(1.9)
Profit before income tax		43.4	20.4
Income tax	10	(7.7)	(3.8)
Profit for the period		35.7	16.6
Other comprehensive income			
Items which will be reclassified to profit or loss			
Gain/(loss) on available-for-sale financial assets	17	(46.0)	(36.8)
Income tax on other comprehensive income	10	10.9	7.7
Other comprehensive loss, net of tax		(35.1)	(29.1)
Total comprehensive income		0.7	(12.5)

The notes on pages 232 to 55 form an integral part of these financial statements.

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of financial position

For the period ended 28 February 2023

	Note	28 Feb 2023	28 Feb 2022
		£m	£m
Assets			
Intangible assets	11	9.9	11.1
Property, plant and equipment	12	2.2	1.1
Deferred acquisition costs	14	5.2	11.0
Deferred tax asset	15	14.5	3.1
Reinsurance assets	16	216.9	245.1
Financial investments	17	574.7	599.6
Insurance and other receivables	18	95.4	52.0
Cash and cash equivalents	19	45.9	64.5
Current tax asset	21	0.3	0.6
Total assets		965.0	988.1
Shareholders' equity			
Share capital	25	129.7	129.7
Retained earnings		70.9	35.2
Fair value reserve		(43.6)	(8.5)
Total shareholders' equity		157.0	156.4
Liabilities			
Insurance contract provisions	16	602.6	647.5
Financial liabilities - loans and borrowings	20	42.8	42.5
Reinsurance payables		0.6	0.6
Funds withheld	23	123.5	114.8
Current tax liability		-	-
Deferred tax liability		-	-
Insurance payables, other payables and deferred income	22	38.5	26.3
Total liabilities		808.0	831.7
Total equity and liabilities		965.0	988.1

The notes on pages 32 to 55 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 April 2023 and were signed on its behalf by:

G Duggan
Director

P Cartin
Director

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of changes in equity

For the period ended 28 February 2023 (2022 comparative is 14-month period)

	Share capital	Retained earnings	Fair value reserve	Total
	£m	£m	£m	£m
Balance at 1 March 2022	129.7	35.2	(8.5)	156.4
Total comprehensive income for the period				
Profit for the period	-	35.7	-	35.7
Fair value losses relating to available-for-sale financial assets	-	-	(35.1)	(35.1)
Total comprehensive income for the period	-	35.7	(35.1)	0.6
Transactions with owners of the Company				
Dividend Payments	-	-	-	-
Transactions with owners of the Company	-	-	-	-
Balance at 28 February 2023	129.7	70.9	(43.6)	157.0

	Share capital	Retained earnings	Fair value reserve	Total
	£m	£m	£m	£m
Balance at 1 January 2021	129.7	38.6	20.5	188.8
Total comprehensive income for the period				
Profit for the period	-	16.6	-	16.6
Fair value losses relating to available-for-sale financial assets	-	-	(29.0)	(29.0)
Total comprehensive income for the period		16.6	(29.0)	(12.4)
Transactions with owners of the Company				
Dividend Payments	-	(20.0)	-	(20.0)
Transactions with owners of the Company	-	(20.0)	-	(20.0)
Balance at 28 February 2022	129.7	35.2	(8.5)	156.4

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, net of tax, until the investment is derecognised or impaired.

The notes on pages 32 to 55 form an integral part of these financial statements.

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of cash flows

For the period 28 February 2023 (2022 comparative is 14-month period)

	Notes	2023	2022
Cash flows from operating activities			
Profit before tax		43.4	20.4
Adjustments for:			
Investment income	4	(13.8)	(13.9)
Finance costs	9	2.4	1.9
Amortisation of intangible assets	11	3.2	2.8
Depreciation of property, plant and equipment	12	0.6	0.5
Amortisation of deferred acquisition costs	7	5.8	(3.2)
(Gain)/loss on financial investments	17	3.9	(6.0)
Operating profit before working capital changes		**45.5**	**2.5**
(Increase)/decrease in reinsurance assets	16	28.2	(14.7)
(Increase)/decrease in insurance and other receivables	18	(43.4)	(18.8)
(Increase)/decrease in insurance contract provisions	16	(44.9)	(0.7)
Increase/(decrease) in other payables and deferred income	22	12.4	6.5
Increase/(decrease) in reinsurance payables	23	8.7	25.0
Cash flows generated by/(used in) operations		**6.6**	**(0.2)**
Interest received	4	13.2	13.0
Dividend Received	4	0.6	0.9
Tax (paid)/received		(7.9)	(4.9)
Net cash flows from operating activities		**12.4**	**8.8**
Cash flows from investing activities			
Purchase of financial investments	17	(179.0)	(111.6)
Sale of financial investments	17	154.0	123.4
Purchase of intangible assets	11	(2.0)	(4.2)
Purchase of property, plant and equipment	12	(1.7)	(1.1)
Net cash (used in)/from investing activities		**(28.7)**	**6.5**
Cash flows from financing activities			
Interest paid	9	(2.1)	(1.7)
Dividend paid		0.0	(20.0)
Repayment of lease liabilities		(0.2)	-
Net cash used in financing activities		**(2.3)**	**(21.7)**
Net decrease in cash and cash equivalents		(18.6)	(6.5)
Cash and cash equivalents at 1 January/1 March		64.5	71.0
Cash and cash equivalents at 28 February		**45.9**	**64.5**
Cash and cash equivalents available to the Company	19	**45.9**	**64.5**

The notes on pages 32 to 55 form an integral part of these financial statements.

TESCO UNDERWRITING LIMITED

Significant accounting policies

Tesco Underwriting Limited ('the Company') is a private company, limited by shares, domiciled and incorporated in England and Wales. The Company is primarily involved in personal lines insurance.

The Company is owned by Tesco Personal Finance plc.

(a) Statement of compliance

The financial statements were authorised for issue by the directors on 28 April 2023.

(b) Basis of preparation

The Company has prepared the financial statements on a going concern basis. In considering the appropriateness of this assumption the Board has reviewed the Company's projections for the next twelve months from the date of this report and beyond, including cash flow forecasts and regulatory capital surpluses. The directors concluded that it is appropriate to prepare the accounts on a going concern basis. Consequently, the directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Unaudited SCR coverage at 28 February 2023 is 159.0%.

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 combines 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 disclosure in the notes for these classifications are distinguished as follows:

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

All new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered.

IFRS 9 Financial Instruments:
IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' permits entities which meet certain requirements to defer the implementation of IFRS 9 until the effective date of IFRS 17. In June 2020, the IASB issued a final IFRS 17 with an effective date of 1 January 2023. The fixed expiry date for the optional temporary exemption from applying IFRS 9 granted to insurers was also 1 January 2023.

The Company is eligible for the temporary exemption and has opted to defer the implementation of IFRS 9. The eligibility conclusion is based on an analysis of the percentage of the total carrying amount of liabilities connected with insurance activities relative to the total carrying amount of all liabilities, which indicates the Company's activities are predominantly connected with insurance. Consequently, the Company has opted to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard, being 1 March 2023.

In the context of the deferral of the implementation of IFRS 9, additional disclosures relating to groups of financial assets with contractual cashflows that are solely payments of principal and interest (the SPPI test) and to the credit quality of financial instruments that pass the SPPI test are required during the deferral period. Note 2(iii) refers to these SPPI tests.

IFRS 9 will require the Company’s financial assets to be classified as either held at amortised cost, fair value through other comprehensive income or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset. From a review of the Company’s balance sheet at 28 February 2023, the Company expects the following classification changes to take place:

- Debt investment securities classified as available-for-sale under IAS 39 will be classified and measured at fair value through other comprehensive income under IFRS 9.
- Other financial assets that are classified as loans and receivables under IAS 39 will be classified and measured at amortised cost under IFRS 9.

The investment in a property fund currently classified as fair value through profit and loss under IAS 39 will continue to be classified and measured at fair value through profit and loss under IFRS 9.

There is no change in the measurement basis of these balances as a result of the adoption of IFRS 9.

IFRS 9 also requires the Company to recognise expected credit losses (ECL) on all financial assets, and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial instruments.

The Company will fully restate comparative periods on initial application of IFRS 9 for the financial year ending 28 February 2024. The restated balance sheet for the financial year ending 28 February 2023, will include a transition adjustment of £0.8m to the opening equity balance at 1 March 2022, capturing the expected credit loss on the Company’s financial assets under the requirements of IFRS 9.

IFRS 17 ‘Insurance Contracts’:
IFRS 17 was endorsed for adoption by the UK Endorsement Board in May 2022 and is effective for financial years commencing on or after 1 January 2023. IFRS 17 will be implemented by the Company with effect from 1 March 2023. IFRS 17, which is a replacement for IFRS 4 'Insurance Contracts', requires

(b) Basis of preparation (continued)

insurance liabilities to be measured at a current fulfilment value . IFRS 17 includes an optional simplified premium allocation approach which is permitted for contracts with a coverage period of one year or less.

Under IFRS 17, insurance contract liabilities will include both a liability for incurred claims and a liability for remaining coverage.

Liability for incurred claims represents outstanding claims and incurred but not reported claims and will be measured as weighted average of discounted cash flows and will include a risk adjustment for the uncertainty of the cash flows.

Liability for remaining coverage is the obligation for insured events related to the unexpired portion of the coverage period. The Company applies the premium allocation approach to all material insurance and reinsurance contract groups resulting in the liability for remaining coverage to be equal to unearned premium reserve less deferred acquisition costs.

Contracts will be grouped into Motor and Home portfolios. In addition, within these portfolios the Standard requires grouping by 'onerous', 'no significant possibility of becoming onerous' or 'other'. The Company have grouped all its business as 'other' as none of the groups are onerous at the opening balance sheet date.

The Company has taken the option to disaggregate part of the movement in liability for incurred claims from changes in discount rates and present this in other comprehensive income. Liabilities for remaining coverage are not discounted, whereas all liabilities for incurred claims are discounted. The company will fully restate comparative periods on initial application of IFRS 17 for the financial year ending 28 February 2024. The restated balance sheet for the financial year ending 28 February 2023, will include a transition adjustment of approximately £6m reduction to the opening equity balance at 1 March 2022, capturing the difference between IFRS 4 and IFRS 17.

Future changes in presentation of the statement of comprehensive income and other comprehensive income include, but are not limited to:

- 'Insurance revenue' will replace 'Gross earned premiums'.
- 'Insurance service expense' will replace 'Gross claims and benefits incurred' and will also include acquisition and administration expenses.
- Reinsurance will be separated from gross insurance, and both premiums and claim recoveries will be captures in 'Net expense from reinsurance contacts held'.
- A new item, 'Finance income / expenses from insurance contracts' will capture the impact of the time value of claims when it is paid.

Future changes in presentation of the statement of financial position include, but are not limited to:

- 'Insurance contract liabilities' will replace 'Insurance contract provisions', and will be net of Deferred acquisition costs and Insurance premium debtors.
- 'Reinsurance contract assets' will replace 'Reinsurance assets' and will be net of reinsurance funds withheld and reinsurance payables.

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis except that financial instruments classified as available-for-sale and are stated at their fair value and also the property investment recognised as fair value though the profit and loss account.

(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 Pounds Sterling has been rounded to one decimal place.

(iii) Use of estimate and judgements

The preparation of financial statements in conformity with IFRS as issued by the IASB 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, the results of which form the basis of making the judgements about 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. Restatements to accounting estimates are recognised in the year in which the estimate is restated 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 IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in notes 1 and 2.

The accounting policies set out below have been applied consistently to the period presented in these financial statements.

(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 policyholder or other beneficiary are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

Significant accounting policies

(d) Recognition and measurement of revenue

Premium

Gross written premiums comprise the premiums on contracts entered into during the period, 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 and levies based on premiums. The earned portion of premiums written 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.

(e) Insurance contracts and reinsurance assets

Claims

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

The provision for outstanding claims represents 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, plus related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an 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, substantively enacted legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding and presented separately as assets.

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. Estimated values for insurance claims have a significant risk of material adjustment to the carrying amount of liabilities in the next financial year. Adjustments to the amounts of claims provisions established in prior periods will be 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 and challenged regularly and presented to the Board and Audit and Board Risk Committees.

Liability adequacy test (Unexpired risk provision)

If required a 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 by reference to classes of business which are managed together, after taking into account the relevant investment return.

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 ceded includes quota share, excess of loss and adverse development cover contracts. 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 comprehensive income 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 period as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are accounted for as financial instruments. The Company does not have financial reinsurance.

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 reliable measurable impact on the amounts that the Company will receive from the reinsurer.

For the quota share reinsurance ceded, amounts payable for funds withheld, net of the associated quota share profit commission, are maintained in accordance with contract terms for each underwriting year. A commutation is performed for the purposes of settling the profit commission and funds withheld balance within the terms of the contract four years after commencement. For further details on funds withheld see note 23.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial periods, 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.

Significant accounting policies

(e) Insurance contracts and reinsurance assets (continued)

Deferred acquisition costs

Commission payable to agents and other acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred. Any balances not considered recoverable are written off.

Such deferred acquisition costs are finite and are amortised by reference to the basis on which the related premiums are earned which is over a one-year period.

Other assessments and levies

The Company is obligated to pay various guarantee fund levies or other insurance industry related assessments. MIB levy costs are recognised in full at the end of each year to cover the payment that will be required in the following year. FCA and Flood Re levies are billed on 1 April and the expense on these is recognised in full because the full year's liability is due on this date.

(f) Investment income

Investment income comprises interest income and net realised gains from financial investments earned in the period. Interest income is recognised as it accrues in the income statement, using the effective interest method.

(g) Expenses

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and are expensed in the statement of comprehensive income in the period to which they relate.

(h) Employee benefits

Defined contribution plan

A defined contribution 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 comprehensive income 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.

Wages, salaries and annual leave

Liabilities for wages and salaries and annual leave are recognised, and are measured at the amounts expected to be paid when the liabilities are settled.

(i) Income tax

Income tax expense in the statement of comprehensive income for the period comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

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

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 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, 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Assumptions used in determining future taxable profits are consistent with other internal financial forecasts. 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.

The Company assesses their recoverability over a reasonably foreseeable timeframe, being typically a minimum of 5 years, considering the future expected profit profile and any potential legislative restrictions on use. This is in line with other internal financial forecasts.

Deferred tax assets and liabilities are not discounted.

Significant accounting policies

(j) 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 (o)). 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.

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) Right of use assets

Right of Use Assets are measured at cost, which is made up of the initial measurement of lease liability, any costs to dismantle and remove the asset at the end of the lease, and any payments made in advance of the lease commencement date. A lease liability is also measured at the lease commencement date at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

(iii) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful lives are as follows:

Furniture and equipment	Three to five years
IT equipment	Three to five years
Right of use assets	The earlier of the useful life of the right of use asset or the end of the lease term

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 comprehensive income.

(k) Intangible assets

Development expenditure

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably. Intangible assets with definitive lives are amortised over the estimated useful life.

The Company capitalises internally developed intangible assets when the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its 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
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company's intangible assets are computer software and are being amortised using the straight line method over 5 years.

At each reporting date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable value is estimated. An impairment loss is recognised if the carrying amount of intangible asset exceeds its recoverable amount.

(l) Financial investments

Financial assets measured at fair value through the profit and loss account

TU's investment in a property fund was designated on initial recognition as one to be measured at fair value through the profit and loss account. Subsequent to initial recognition, it is remeasured at fair value which is the quoted bid price at the statement of financial position date but reflects an illiquidity discount relating to the suspension during the year of transfers from the fund. These restrictions are expected to be lifted by June 2023.

Financial assets held as available-for-sale (AFS)

TU's investment debt securities are held as available-for-sale (AFS) assets. There are no derivatives.

Significant accounting policies

(l) Financial investments (continued)

These investments are recognised initially at fair value plus any directly attributable transaction costs. Purchases of financial investments 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 prices at the statement of financial position date.

Debt securities held are intended to be held for an indefinite period and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

(m) Other receivables

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and holdings in liquidity funds. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management and are included as a component of cash and cash equivalents.

(o) 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. Impairments on AFS investment bonds are recognised if there is a significant or prolonged decline in fair value.

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 a financial investment is calculated by reference to its fair value.

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

All impairment losses are recognised in the statement of comprehensive income. Any cumulative loss in respect of a financial investment recognised previously in equity is transferred to the statement of comprehensive income.

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 financial investments that are debt securities, the reversal is recognised in other comprehensive income. For the property fund, the reversal is recognised in profit and loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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 groups 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 comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated 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.

Significant accounting policies

(p) Financial liabilities

Financial liabilities include payables to related parties and interest-bearing loans and borrowings and also bank overdrafts and other contractual 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. 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 comprehensive income over the year 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 mostly short term in nature or are repriced frequently.

(q) Derecognition 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 or cancelled or expires.

(r) 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.

(s) Share capital

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

(t) Dividends

Dividends payable on ordinary shares are recognised when they are approved.

Notes to the financial statements

1. Accounting estimates and judgements

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its Financial Statements. The Company's principal accounting policies are set out in note 1. UK company law and IFRSs require the Directors, in preparing the Company's Financial Statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. Where accounting standards are not specific and Management has to choose a policy, IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', requires Management to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRSs dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

In the course of preparing the Financial Statements, the accounting policy for deferred acquisition costs is considered to be an area of significant judgement. Further details are discussed below.

The only significant accounting estimate with a significant risk of a material change to the carrying value of assets and liabilities within the next year is the accounting for outstanding insurance claims and provisions as discussed below, and reinsurance recoveries related to these claims and provisions. The use of estimates, assumptions or models that differ from those adopted by the Company could affect its reported results.

Outstanding claims and provisions

The Company establishes outstanding claims and provisions, or loss reserves in respect of the anticipated losses incurred in respect of business it has underwritten. 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 underwritten by the Company and fall into two categories – reserves for reported losses and reserves for losses incurred but not reported as of the statement of financial position date.

In summary, case reserves for reported losses are established on a case-by-case basis and are based largely on past experience of settlements managed within the Company, as well as market experience on similar claims. The case reserves are set on an undiscounted basis 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, such as enacted or substantively enacted changes in the law and changes in costs relating to settlement.

Technical provisions for losses incurred but not reported as of the statement of financial position date are mostly established on an undiscounted basis. They are estimated based on historical data using various actuarial techniques and statistical modelling methodologies and calculated separately for each line of business underwritten and take into account trends in settlement costs in arriving at the final estimates. Gross to net ratios are applied to the gross provisions allowing for the reinsurance contracts in place at the appropriate period and historical development of the reinsurance recoveries.

Technical provisions on a discounted basis are set up in respect of Periodic Payment Orders (PPOs) only. The expected cashflows arising from known and potential PPO claims are calculated at a gross level and a related calculation is carried out to consider expected reinsurance cashflows. The future PPO related cashflows are discounted using a long term expected investment return to derive discounted claims provisions and discounted reinsurance provisions.

Scenarios, such as the Ogden discount rate changing or incorrect claims handlers' initial assessments in relation to expenses and interest rates, are assessed for the material components of the Company's reserves. For motor damage and smaller bodily injury claims, material scenarios lie in a range between £15m above and £15m below the chosen actuarial best estimate (ABE). Those associated with larger bodily injury claims are in a range between £30m above and £30m below the chosen ABE. This assumes an Ogden discount rate for valuing larger claims of -0.25%. The impact of a +/-2% recovery rate on accidental damage can be in a range of +/- £10m. Volatility in the average claim size for bodily injury capped claims could result in a difference of +/- £10m.

Uncertainty in the outstanding claims provisions arises from the settlement of bodily injury claims given the time to settlement and reliance on case estimation which may be based on relatively limited information. At this time there is heightened risk from claims inflation and supply chain issues which may have been impacted from either Brexit or the economic environment. These uncertainties create pressure in relation to late reported claims but also increases in average claims size. Scenarios around the impact of inflation and claims lifecycle were considered as part of the reserving process.

For further details on outstanding claims and provisions or loss reserves see Note 16.

2. Risk Management

Objectives and policies for mitigating business risk

The Company has identified the following risk areas: insurance, market, counterparty default, liquidity, operational, capital management and outsourcing which are aligned with the Company's Risk Framework Policy, which details the procedures in place to manage these exposures. These procedures are embedded in 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 and articulates the individual risks faced in each area of the business and the controls in place to mitigate these. The Company's Management Risk Committee meets regularly to review both the risk profile and adherence to the risk framework, including risk appetite and risk policies, 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 Management Risk Committee's reports are provided to the Company's Board Risk Committee and Audit Committee.

(i) Insurance Risk

The Company's primary insurance business is the assumption of risk of loss from individuals directly subject to the risk. The classification of insurance risks are underwriting, claims reserving, claims management, reinsurance and expenses.

2. Risk Management (continued)

Objectives and policies for mitigating business risk (continued)

(i) Insurance Risk (continued)

(a) Underwriting Risk

Underwriting risk occurs when the Company underwrites a policy at a given price which obliges it 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 and/or that payments are required

under conditions that were not anticipated. 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 objective for underwriting risk is to manage the risks in line with the strategic plan and deliver the required return on capital and ensure that its plans are aligned to the strategies and plans of its distribution channel, i.e. Tesco Personal Finance plc.

The Company's approach to underwriting risk is characterised by large numbers of policyholders with homogeneous exposures such as car and home policies. Products are priced based on the Company's knowledge and the technical price is given to its sole intermediary, Tesco Personal Finance plc. Tesco Personal Finance plc has no discretion over this rate and must always provide the Company with this rate, irrespective of the final premium that has been agreed with the client; consequently underwriting is tightly controlled. The main technique to determine the price to be charged is to use past exposures, historical losses (plus an appropriate allowance for losses incurred but not reported (IBNR)) and external data sources with the appropriate adjustments to reflect anticipated future market conditions, expenses and the required profit margin.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys primarily 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. The Company has also purchased Adverse Development Cover (ADC) against the risk of low frequency high impact scenarios. Since 2018, the Company entered into a quota share reinsurance treaty in which the Company and the reinsurers share premiums and losses at an agreed percentage for each underwriting year. A commutation is performed for the purposes of settling the profit commission and funds withheld balance within the terms of the contract, four years after commencement. Consequently, the Company commuted the 2018 Quota Share contract in December 2021 and the 2019 Quota Share contract in December 2022.

Sensitivity analysis of insurance risk

A well designed and executed Stress and Scenario Testing (SST) programme is part of TU's Contingency Planning which is consistent with previous periods.

Insurance stresses tested will consider:

- TU's market competitiveness - to assess the impact of lower profitability from writing lower than expected volumes or the capital strain from writing higher than expected volumes;
- Multiple weather events - to model events as a result of increasing aggravating climate changes and the impact on TU's catastrophe reinsurance covers;
- Large bodily injury claims - to assess the impact of insufficient loss reserves;
- Reinsurance contracts - to assess the benefits versus the costs of TU's QS reinsurance contract and ADC contact; and
- Ogden discount rate - to assess the impact of a reduction in the Ogden rate that is used in assessing large bodily injury claims

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. 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.

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 limits the impact of these events. The Company uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

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. TU only writes policies in the UK. 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.

Economic conditions

The Company's insurance portfolio exposes it to a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle. The Company's strategy has been to ensure that it charges the right premium for the business underwritten and it focuses on maintaining prices in such difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent.

2. Risk Management (continued)

Objectives and policies for mitigating business risk (continued)

(i) Insurance Risk (continued)

(a) Underwriting Risk (continued)

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 to which the Company is exposed. Additional stress and scenario tests are run using these models during the year.

Claims reserving risk

Reserving and the ultimate cost of claims risk occurs where the Company's estimates of its insurance liabilities prove to be insufficient through inaccurate forecasting, adverse random variation, or additional expenses.

The methods used to estimate the insurance liabilities in respect of outstanding claims and provisions are detailed in Note 1 to the financial statements.

The aim of the reserving policy of the Company is to produce estimates of insurance liabilities that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims.

The Company's reserving position is reviewed at the regular Reserving Committee and is presented to the Board. In addition an independent reserve review is undertaken as appropriate.

(b) Claims management risk

Claims management risk may arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service, claims fraud, ineffective or inefficient claim processes 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 the provision of the service that meets those needs in agreement with its service provider. Customers include both the 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:

- inception of claims – work on claims commences at first notification of a loss where the components to satisfy a customer's claim are taken;
- predicament management – tailoring the Company's service to meet each individual customer's predicament created by the claim event and to meet their individual needs; and
- reducing failure demand – reducing the additional rework created by initially failing to take the right action 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 the Company's customers fairly, reflects Company policy, values 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.

(c) 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 by there being gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Company's reinsurance broker, and is approved by the Reinsurance Committee and the Board.

The failure of a reinsurer to pay a valid claim is categorised as a credit risk.

(ii) Market risk

Market risk is the risk of change in the fair value of financial assets due to changes in interest rates and debt security market values and changes in fair value in relation to the property fund investment.

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 the material proportion of its investments in fixed rate debt securities. It will normally hold these securities to their maturity in line with the investment strategy. This reduces the variation in future cash flows and provides security over future income and redemption values.

Notes to the financial statements

2. Risk Management (continued)

Objectives and policies for mitigating business risk (continued)

(ii) Market Risk (continued)

Interest rate risk

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 the material proportion of its investments in fixed rate debt securities. It will normally hold these securities to their maturity in line with the investment strategy. This reduces the variation in future cash flows and provides security over future income and redemption values.

Spread 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 of 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.

(iii) Counterparty default risk

Credit risk is where counterparties fail to meet their obligations in full as they fall due. The main sources of credit risk are:

- Investments
- Tesco Personal Finance plc (intermediary)
- Reinsurers
- Other financial assets

None of the above are past due or impaired.

The Company has an Investment Committee, a Reinsurance Committee, a Board Risk Committee and a Management Risk Committee that monitor the different exposure, rating and accumulation risks. They review policies to ensure risk is controlled.

The table below provides information regarding the credit risk exposure of the Company at 28 February 2023 by classifying assets according to the credit ratings of counterparties. The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

At 28 Feb 2023			£m			
	AAA	AA	A	BBB	Other	Total
Reinsurance assets	-	99.1	117.7	-	-	216.9
Financial assets recognised through profit and loss	-	-	-	-	19.2	19.2
Available for sale investments	91.6	83.0	229.5	151.4	-	555.4
Cash and cash equivalents	26.7	-	19.2	-	-	45.9
Insurance and other receivables	-	3.9	31.1	1.1	50.0	86.0
	118.3	186.0	397.5	152.5	69.1	923.4

At 28 Feb 2022			£m			
	AAA	AA	A	BBB	Other	Total
Reinsurance assets	-	137.3	107.8	-	-	245.1
Financial assets recognised through profit and loss	-	-	-	-	23.2	23.2
Available for sale investments	77.9	102.4	282.4	113.7	-	576.4
Cash and cash equivalents	50.3	14.2	-	-	-	64.5
Insurance and other receivables	-	2.0	15.4	-	26.3	43.7
	128.1	255.9	405.7	113.7	49.5	952.9

Investment ratings are provided by three credit rating agencies, Standard & Poor's, Moody's and Fitch. The ratings used are taken from the middle rating of the three agencies.

Included in the table above are bonds of £555.4m (2022: £576.4m) and a property fund of £19.2m (2022: £23.2m). All the bonds are considered to be financial instruments that pass the SPPI test as required by IFRS 9, as described in Note (b) of the significant accounting policies. The property fund does not meet the SPPI test and is valued at fair value through the profit and loss account. There are no other financial instruments that do not meet the SPPI test.

2. Risk Management (continued)

(iii) Counterparty Default Risk (continued)

Investments

The risk is managed within the Company's investment guidelines by the Investment Committee who regularly update the Board. The investment risk appetite is low as the return is required to meet future liabilities arising from the Company's insurance business. The debt securities that the Company holds are held as available-for-sale assets. These are held in a high quality, fixed income portfolio and are intended to be held for an indefinite period and which may be sold in response to needs for liquidity or in response to changes in market conditions.

An analysis of income from available for sale assets and income from other financial assets is shown in Note 17.

Agents, brokers and intermediaries

The Company only trades through Tesco Personal Finance plc which is authorised by the PRA and regulated by the FCA and the PRA. The levels of debt are regularly monitored and appropriate action is taken in respect of slow and non-payment within the terms of credit.

	2023	2023	2022	2022
	£m	%	£m	%
Within terms	18.8	100.0	11.0	100.0
Total	18.8	100.0	11.0	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 using only A grade (or better) reinsurers, or group companies supported by parent guarantee. The ratings of reinsurers are monitored by the Reinsurance Committee.

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, from the default of the counterparty. Default on instalment payments results in the Company cancelling the underlying policy in order to reduce its exposure.

The maximum exposure is equal to the carrying amount of those assets.

An analysis of insurance and other receivables is shown in Note 18.

(iv) Liquidity risk

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.

The Company manages its liquidity risk by having investment guidelines that it maintains sufficient liquidity or its financial assets can be realised at short notice in the event of a major event or catastrophe. The Company may also make use of borrowing facilities if required.

The following tables show information about the estimated timing of the net cash flows based on the claims assets and liabilities at 28 February 2023 and contractual maturity profile for the other financial assets (including undiscounted cashflows) and liabilities as at 28 February 2023. The estimated phasing of the claims liabilities is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below. The Company undertakes liquidity stress tests to assess the impact on the cash flow from these events.

Notes to the financial statements

2. Risk Management (continued)
(iv) Liquidity risk (continued)

Maturity profile of financial assets 2023

£m	Within 1 year	2 -5 years	5 years and above	No term	Total
Reinsurance assets	71.7	80.0	65.1	-	216.9
Financial assets where change in fair value is recognised in the profit and loss account	-	-	-	19.2	19.2
Available for sale investments	62.2	389.9	225.0	-	677.1
Insurance and other receivables	24.6	18.7	0.4	-	43.7
Cash and cash equivalents	45.9	-	-	-	45.9
Deferred Tax Asset	0.3	14.3	-	-	14.6
	204.7	503.0	290.4	19.2	1,017.3

Maturity profile of financial assets 2022

£m	Within 1 year	2 -5 years	5 years and above	No term	Total
Reinsurance assets	60.9	92.6	91.6	-	245.1
Financial assets where change in fair value is recognised in the profit and loss account	-	-	-	23.2	23.2
Available for sale investments	142.7	225.7	208.1	-	576.4
Insurance and other receivables	34.3	9.2	0.2	-	43.7
Cash and cash equivalents	64.5	-	-	-	64.5
Deferred Tax Asset	(0.1)	3.2	-	-	3.1
	302.3	330.7	299.8	23.2	956.0

Maturity profile of financial liabilities 2023

£m	Within 1 year	2 -5 years	5 years and above	No term	Total
Insurance contract provisions	215.9	255.0	131.7	-	602.6
Loans and borrowings	3.5	13.1	46.4	-	63.0
Reinsurance payables	25.2	98.9	-	-	124.1
Lease Liability	0.1	0.4	0.5	-	1.0
	244.6	367.4	178.6	-	790.6

2. Risk Management (continued)
(iv) Liquidity risk (continued)

Maturity profile of financial liabilities 2022

	£m				
	Within 1 year	2 -5 years	5 years and above	No term	Total
Insurance contract provisions	191.3	257.0	199.1	-	647.4
Loans and borrowings	-	-	-	42.3	42.3
Reinsurance payables	10.2	105.2	-	-	115.4
Lease Liability	0.2	-	-	-	0.2
	201.7	362.2	199.1	42.3	805.4

Claims liabilities - Estimated payment profile

Payment period	2023 £m	2023 %	2022 £m	2022 %
0 - 1 year	126.2	29%	94.8	19%
2 - 5 years	177.4	41%	171.3	35%
5 years and above	125.2	29%	229.7	46%
Total	428.8	100%	495.8	100%

An analysis of insurance contract provisions is shown in Note 16 (iii). Reinsurance payables represent Quota Share Funds Withheld and quarterly reinsurance margin payable. Funds Withheld balances have been allocated to a maturity profile based on the commutation date.

(v) 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. Operational risk includes for example, information technology, people, strategy, business continuity, regulatory, legal and financial crime. Operational risk incidents can lead to additional exposure to other risk types resulting from an inadequate or inappropriate control environment.

The identification, assessment and evaluation, management, monitoring and reporting of risks rests with business managers of the different areas. Risks are identified, assessed and scored; the Management Risk Committee on a regular basis reviews the risks and for those falling outside the Company's risk appetite monitors the remedial action to ensure compliance with the Company's risk appetite. Operational losses and near misses are reviewed to ensure there is ongoing improvement of the control environment.

(vi) 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 Solvency Risk Appetite as specified in the Company's Risk Appetite Policy in full compliance with the requirements of the PRA. Under the Own Risk and Solvency Assessment (ORSA) process the Company also carries out a regular programme of stress and scenario testing to assess the impact on potential future capital requirements.

The Company has a Resolution Plan document, which has been agreed in principle by the Board, based on the guidelines provided in the PRA's Supervisory Statement on Resolution Planning. This contains the baseline information needed to determine a resolution strategy, including details of the Company's ownership structure, business model, internal dependencies and external interconnectedness; and provides the PRA with sufficient information for them to assess the preferred resolution strategy for the firm.

Definitions of capital management (and supporting terms)

Capital management is the collection of processes and activities undertaken to provide sufficient capital to enable the organisation to meet its liabilities and ultimately ensure its survival, particularly in case of 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, as well as the assessments required by the PRA under the Solvency II regime, including the minimum capital requirement (MCR) and solvency capital requirement (SCR), assessed using its approved Solvency II partial internal model (PIM) and Solvency II standard formula (SF). During the period, the Company has principally measured its available capital against the PIM required capital.

2. Risk Management (continued)
(vi) Capital Management (continued)

The Company has a capital contingency plan which sets out the approach to the risk that it could breach its SCR and require an additional, unplanned capital injection.

Approach to capital management

Each year the Company will prepare a three-year strategic plan, which will be reviewed and restated annually and then formally approved by the Company's Board.

A key factor in the formulation of the Strategic Plan is the ORSA process which covers 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; and
- PRA solvency capital requirements based on the Company's approved Partial Internal Model.

The Company's available capital is compared to its risk appetite above the Solvency II PIM SCR. At 28 February 2023 the Company had unaudited Solvency II own funds of £195.2m (2022: £183.0m) against unaudited PIM SCR of £122.8m (2022: £121.1m). The coverage ratio is 159.0% post dividend (2022: 151.0%).

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 whole range of other factors will impact the results they cannot be guaranteed to predict the result detailed. In addition the Company's risk management processes are designed to ensure that corrective action is implemented to mitigate or reverse the changes.

Interest yields sensitivity

The Company will be exposed to the impact of interest yield changes on its financial assets and liabilities. If interest yields fall there would be a reduction in income on short-term cash balances and an increase in the market value of fixed interest debt securities. If interest yields rise there would be an increase in income on short-term cash balances and a decrease in the market value of fixed interest debt securities.

As the Company will normally hold its fixed interest debt securities for an indefinite period, it will neither benefit from an increase nor suffer any reduction in its future cash flow. It will either benefit from an increase or suffer a reduction in the yield on any future fixed interest debt securities purchased from surplus funds and the maturity of current investments.

Interest yields 2023	2023 £m	2023 £m	2023 £m	2023 £m
Interest yield change	+ 0.5%	+ 0.25%	- 0.25%	- 0.5%
Increase/(reduction) in profit	0.2	0.1	(0.1)	(0.2)
Increase/(decrease) in net assets	(3.4)	(1.7)	1.7	3.4
Total estimated increase/(decrease) in net assets excluding tax impact	(3.2)	(1.6)	1.6	3.2

Interest yields 2022	2022 £m	2022 £m	2022 £m	2022 £m
Interest yield change	+ 0.5%	+ 0.25%	- 0.25%	- 0.5%
Increase/(reduction) in profit	0.7	0.4	(0.4)	(0.7)
Increase/(decrease) in net assets	(2.9)	(1.4)	1.4	2.9
Total estimated increase/(decrease) in net assets excluding tax impact	(2.2)	(1.1)	1.1	2.2

Notes to the financial statements

2. Risk Management (continued)
(vi) Capital Management (continued)

Expenses increase by 5.0%

If all three expense areas (acquisition, administration, and claims) were to increase by 5.0% each, in addition to the impact on profit of the additional costs, it will also increase the claims handling provision and the deferred acquisition costs to the extent that these will be recovered by unearned premiums. The £14.5m profit commission received on the commutation of the Motor excess of loss contract reduced the net acquisition costs and therefore contributed to the reduction in the current year impact (refer note 7 for more details).

	2023	2022
	£m	£m
Total reduction in profit before tax	1.7	3.6
Total reduction in net assets before tax	1.7	3.6

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 claims handling reserve as a proportion of the claims would be unpaid at the statement of financial position date. This sensitivity analysis support the monitoring of outstanding claims and provisions that has been identified on page 29 as a key source of estimation uncertainty.

	2023	2022
	£m	£m
Total reduction in profit before tax	3.1	3.4
Total reduction in net assets before tax	3.1	3.4

Outsourcing risk

Outsourcing risk arises from the reliance on, or failure of, an outsourcer to:

- exercise control over major processes, key operations, functions and knowledge that are critical to the Company's business;
- comply with the Company's risk policies;
- deliver their contractual agreements.

It also includes the risk of needing to bring back in-house the key operations and not having the capacity to do so.

The identification, assessment and evaluation, management, monitoring and reporting of risks rests with business managers of the different areas. This process applies wherever the Company appoints a third party (either independent or intra group) for the supply of services which are integral to its main business activities.

(viii) Climate Change risk

The Company has considered risks associated with climate change. This is considered in full within the Environment section of the Strategic Report.

3. Premium and ceded premium

	2023	2022
	£m	£m
Gross premiums written	326.7	346.6
Change in the gross provision for unearned premiums	(17.4)	(4.1)
Gross insurance premium revenue	309.3	342.5
Less: written premiums ceded to reinsurers	(148.0)	(150.9)
Reinsurers’ share of change in the provision for unearned premiums	8.8	1.7
Ceded earned premiums	(139.2)	(149.2)
Net insurance premium revenue	170.1	193.3

Notes to the financial statements

4. Investment income

	2023	2022
	£m	£m
Interest Income:		
- Financial investments interest income	12.2	13.0
- Loans and receivables interest income	1.0	-
Dividend income from financial assets through profit and loss account	0.6	0.9
Fair value losses on financial assets at FVPL (designated as such on initial recognition)	(3.9)	4.8
Realised gains and losses from available-for-sale assets	-	0.1
Total investment income	9.9	18.8

5. Other operating income

	2023	2022
	£m	£m
Other income	4.2	3.4
Total other operating income	4.2	3.4

Other operating income reflects income derived from fees earned upon the referral of customers to third parties for car hire.

6. Claims and benefits incurred

	2023	2022
	£m	£m
Current period claims paid	(139.9)	(122.2)
Change in prior periods claims provisions	99.2	51.3
Claims handling costs	(11.9)	(12.3)
Additional liabilities arising during the period	(134.9)	(149.9)
Total claims and benefits incurred	(187.5)	(233.1)

7. Acquisition costs

	2023	2022
	£m	£m
Commission expenses payable	(2.1)	(17.2)
Other acquisition costs payable	(5.0)	(5.4)
Reinsurance commission and profit participation	21.2	1.9
Changes in deferred acquisition costs	(5.8)	3.2
Total acquisition costs	8.3	(17.5)

Reinsurance commission and profit participation includes £14.5m profit commission received following the commutation of reinsurance contracts. The Company exercised its right to commute the 2013 to 2015 Motor Excess of Loss reinsurance contracts during the year.

Notes to the financial statements

8. Operating expenses

	2023 £m	2022 £m
Depreciation and amortisation	(3.8)	(3.3)
Employee expense and benefits:		
- Wages and salaries	(17.2)	(16.6)
- Compulsory social security contributions	(1.9)	(1.8)
- Contributions to defined contribution plans	(0.8)	(1.1)
Total staff costs	(19.9)	(19.5)
Auditor's remuneration	(0.9)	(0.4)
Other operating expenses	(5.8)	(18.5)
Total operating expenses	(30.4)	(41.7)

Amortisation included above relates to intangible assets – refer Note 11 for more detail. The Company will pay its auditor £619,650 (2022: £408,000) in total including £547,410 (2022: £342,000) for the audit of these financial statements, £72,240 (2022: £66,000) for the audit of the relevant elements of the Solvency and Financial Condition Report.

9. Finance costs

	2023 £m	2022 £m
Interest expense	(2.4)	(1.9)
Interest expense on lease liabilities	0.0	0.0
Total finance costs	(2.4)	(1.9)

Notes to the financial statements

10. Income tax

	2023	2022
	£m	£m
Analysis of tax charge in the period		
Current tax		
UK corporation tax on profits of the period	8.2	3.7
Prior period (over)/under provision in respect of current tax	-	0.1
	8.2	3.8
Deferred tax		
Origination and reversal of timing differences	-	0.2
Prior period (over)/under provision in respect of deferred tax	(0.5)	(0.1)
	(0.5)	0.1
		-
Tax on profit on ordinary activities	7.7	3.9
Profit/(loss) on ordinary activities before tax	43.4	20.4
Profit on ordinary activities at the standard rate of corporation tax in the UK at 19% (2022:19%)	8.2	3.9
Prior period (over)/under provision in respect of current tax	-	0.1
Prior period (over)/under provision in respect of deferred tax	(0.5)	(0.1)
Tax on profit on ordinary activities	7.7	3.9
Statement of other comprehensive income		
Current tax recognised through OCI	-	-
Deferred tax recognised through OCI	(10.9)	(7.7)
Total tax recognised directly in equity	(10.9)	(7.7)

11. Intangible assets

	IT software
	£m
Cost	
Balance at 31 December 2020	33.5
Additions	4.2
Balance at 28 February 2022	37.7
Additions	2.0
Balance at 28 February 2023	39.7
Amortisation and impairment losses	
Balance at 31 December 2020	23.8
Amortisation charge for the period	2.8
Balance at 28 February 2022	26.6
Amortisation charge for the period	3.2
Balance at 28 February 2023	29.8
Carrying amounts	
Balance at 28 February 2022	11.1
Balance at 28 February 2023	9.9

12. Property, plant and equipment

	Right of Use Asset: Lease	Furniture	IT equipment	Total
	£m	£m	£m	£m
Cost				
Balance at 31 December 2020	1.3	1.7	0.3	3.3
Acquisitions/(Disposals)	-	-	1.1	1.1
Balance at 28 February 2022	1.3	1.7	1.5	4.5
Acquisitions/(Disposals)	1.0	0.7	-	1.7
Balance at 28 February 2023	2.3	2.4	1.5	6.2
Depreciation and impairment losses				
Balance at 31 December 2020	0.9	1.7	0.3	2.9
Depreciation charge for the period	0.3	-	0.2	0.5
Balance at 28 February 2022	1.2	1.7	0.5	3.4
Depreciation charge for the period	0.2	-	0.4	0.6
Balance at 28 February 2023	1.4	1.7	0.9	4.0
Carrying amounts				
Balance at 28 February 2022	0.1	-	1.0	1.1
Balance at 28 February 2023	0.9	0.7	0.6	2.2

The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term.

13. Leases

The Company leases office premises. During the year, the company moved offices and a new lease agreement was entered into from 1 September 2022 and the previous lease was exited on 17 December 2022.

The lease contains a rent-free period of 18 months from the commencement date and has a break option after five years, for which the Company considers it reasonably certain not to exercise. The lease liability therefore includes all future lease payments including those subsequent to the break date.

The interest expense charged on lease liabilities during the period was £29,827 (2022: £11,802).

(i) Income statement amounts relating to leases

The income statement includes the following amounts relating to leases:

	2023	2022
	£m	£m
Depreciation charge on right of use assets	0.2	0.3
Interest expense on lease liabilities	0.0	0.0
Total	0.2	0.3

(ii) Statement of financial position amounts relating to leases:

The statement of financial position includes the following amounts relating to leases:

	2023	2022
Right of use assets	£m	£m
Office buildings	0.9	0.2
Total right of use assets	0.9	0.2
Lease liabilities		
Current	0.1	-
Non-current	0.9	0.3
Total lease liabilities	1.0	0.3

(iii) Cash flow statement amounts relating to leases:

The cash flow statement includes the following amounts relating to leases:

	2023	2022
	£m	£m
Interest paid on lease liabilities	0.0	0.0
Principal payments on lease liabilities	0.2	0.2
Total cash outflow for lease liabilities	0.2	0.2

14. 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:

	2023	2022
	£m	£m
Balance at 1 March/1 January	11.0	7.8
Acquisition costs incurred in period	(14.1)	20.7
Amortisation charged to income	8.3	(17.5)
Balance at 28 February	5.2	11.0

Notes to the financial statements

15. Deferred tax

In the March 2021 Budget Statement, the Chancellor announced that the standard rate of corporation tax in the UK will increase from 19% to 25% from 1 April 2023. This rate change was substantively enacted on 24 May 2021, and as a result deferred taxes at the balance sheet date are measured at the enacted rate at the end of the reporting period of 25%.

Deferred tax (liabilities) and assets are attributable to the following:	2023	2022
	£m	£m
Other temporary differences	0.0	0.1
Unrealised loss on assets held as AFS through OCI	14.5	3.0
	14.5	3.1

Movement in temporary differences during the period:		
Balance at 1 March/1 January	3.1	(4.5)
Differences between depreciation and capital allowances	(0.1)	(0.1)
Other temporary differences	0.6	0.0
Unwind of gain/(loss) on assets held as AFS through OCI	0.0	0.0
Unrealised (loss)/gain on assets held as AFS through OCI	10.9	7.7
Balance at 28 February	14.5	3.1
Deferred tax asset to be recovered within one year	(0.1)	
Total deferred income tax asset	(0.1)	
Deferred tax liability to be recovered within one year	0.3	
Deferred tax liability to be recovered after more than one year	14.3	
Total deferred income tax liability	14.6	
Deferred tax liability (net)	14.5	

The deferred income tax recognised through OCI during the period relates to unrealised movements on financial investments.

Notes to the financial statements

16. Insurance contract provisions and reinsurance

	2023 Gross £m	2023 Reinsurance £m	2023 Net £m	2022 Gross £m	2022 Reinsurance £m	2022 Net £m
Unearned premiums	173.8	(72.9)	100.9	156.5	(64.1)	92.4
Claims	428.8	(144.0)	284.8	491.0	(181.0)	310.0
Total insurance contract provisions	602.6	216.9	385.7	647.5	(245.1)	402.4
Current	570.2	(71.7)	498.5	191.3	(60.9)	130.4
Non current	32.4	(145.2)	(112.8)	456.2	(184.2)	272.0
	602.6	(216.9)	385.7	647.5	(245.1)	402.4

(i) Analysis of movements in insurance provisions

	2023 Gross £m	2023 Reinsurance £m	2023 Net £m	2022 Gross £m	2022 Reinsurance £m	2022 Net £m
Balance at 1 January/1 March	647.5	(245.1)	402.4	648.2	(230.4)	417.8
Claims paid/recovered from reinsurers	(259.4)	108.3	(151.1)	(231.7)	86.1	(145.6)
Movement in claims incurred but not reported	(12.4)	(19.9)	(32.3)	(2.1)	19.2	17.1
Claims reported in the period	209.6	(51.4)	158.2	229.0	(118.3)	110.7
Change in provision for unearned premiums	17.4	(8.8)	8.6	4.1	(1.7)	2.4
Balance at 28 February	602.6	(216.9)	385.8	647.5	(245.1)	402.4

Recoveries are not included above. For details see subsection (iii).

(ii) Analysis of movements in provision for gross unearned premium

	2023 £m	2022 £m
Balance at 1 January/1 March	156.5	152.4
Premiums written during the period	326.7	346.6
Less: premiums earned during the period	(309.3)	(342.5)
Balance at 28 February	173.9	156.5

16. Insurance contract provisions and reinsurance (continued)
(iii) Analysis of movements in outstanding claims and IBNR

	2023 £m	2022 £m
Gross outstanding claims and IBNR		
Balance at 1 January/1 March	491.0	495.8
Current period claims	309.1	292.5
Change in prior period claims	(111.9)	(65.6)
Current period claims paid	(139.9)	(122.2)
Prior period claims paid	(119.5)	(109.5)
Balance at 28 February	428.8	491.0
Salvage and subrogation recoveries (Note 18)		
Balance at 1 January/1 March	22.1	16.0
Current period claims	34.3	20.5
Change in prior period claims	(12.7)	(14.4)
Balance at 28 February	43.7	22.1
Gross outstanding claims and IBNR (Net of recoveries)		
Balance at 1 January/1 March	468.9	479.8
Current period claims	274.8	272.0
Change in prior period claims	(99.2)	(51.3)
Current period claims paid	(139.9)	(122.2)
Prior period claims paid	(119.5)	(109.5)
Balance at 28 February	385.1	468.9

(iv) Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance provisions are internal, using detailed studies that are carried out at least annually. 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 more recent periods there is insufficient information to make a reliable best estimate of claims development, suitable benchmark 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 costs of the loss is difficult to estimate. The degree of complexity involved will also differ by line 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 reporting lags.

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 claims and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks.

The key methods are:

- development factor methods, which use historical data to estimate the paid and incurred to date as proportions of the ultimate claim cost;
- individual claim assessment methods, which use claim specific details for large individual claims to estimate the ultimate claim cost; and
- benchmarking methods, which use the experience of comparable, more mature classes, or market data to estimate the cost of claims.

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

16. Insurance contract provisions and reinsurance (continued)

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

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 and/or the introduction of a new claims system);
- economic, legal, political and social trends (resulting in, for example, a difference in expected levels of 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 reinsurance programmes. The methods used by the Company take account of historic data, specific details for individual large claims and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

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

Recoveries through salvage and subrogation are estimated and recorded as an asset separately based on a combination of suitable benchmark assumptions and the observed development to date.

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

					Accident year							
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of gross ultimate claims costs:												
At end of the financial year	390.6	349.3	327.1	370.7	304.3	317.4	282.2	219.7	224.1	47.9	41.0	
One financial year later	388.4	352.7	343.2	372.1	298.8	296.7	288.1	209.0	204.4	278.2		
Two financial years later	372.6	379.1	343.1	335.0	269.3	267.9	270.9	184.1				
Three financial years later	382.8	352.9	322.7	324.5	258.3	270.7	234.9					
Four financial years later	362.5	359.7	311.5	322.9	252.8	259.4						
Five financial years later	360.3	346.9	304.9	308.6	251.3							
Six financial years later	360.8	349.9	305.4	303.6								
Seven financial years later	360.3	343.3	305.6									
Eight financial years later	360.1	345.2										
Nine financial years later	358.6											
Current estimate of cumulative claims	358.6	345.2	305.6	303.6	251.3	259.4	234.9	184.1	204.4	278.2	41.0	
Cumulative payments to date	(348.5)	(327.6)	(298.9)	(291.2)	(248.0)	(239.2)	(204.0)	(137.4)	(138.5)	(161.8)	(8.7)	
Current gross claims provisions	10.1	17.6	6.7	12.4	3.3	20.2	30.9	46.7	65.9	116.4	32.3	362.3
2012 and prior												18.0
Claims Handling provision												4.8
Total												385.1

The Company changed its financial year-end from 31 December to 28 February during 2022, however accident years remained consistent with a calendar year. Consequently, the first development year from 2022 onwards represents only 2 months.

16. Insurance contract provisions and reinsurance (continued)

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

	2013	2014	2015	2016	Accident year 2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of net ultimate claims costs:												
At end of the financial year	378.8	336.0	319.5	310.5	276.0	259.0	235.7	143.9	127.0	37.2	31.8	
One financial year later	380.3	338.2	327.2	319.2	269.7	259.3	254.7	124.9	121.0	170.7		
Two financial years later	367.9	348.9	330.7	302.0	252.0	233.4	243.6	111.6				
Three financial years later	371.5	342.6	314.8	291.7	241.5	246.7	220.9					
Four financial years later	358.9	339.1	305.8	292.5	239.4	236.1						
Five financial years later	355.2	338.0	300.7	286.6	238.3							
Six financial years later	356.2	339.9	300.9	285.5								
Seven financial years later	355.1	333.7	300.7									
Eight financial years later	354.2	334.9										
Nine financial years later	352.3											
Current estimate of cumulative claims	352.3	334.9	300.7	285.5	238.3	236.1	220.9	111.6	121.0	170.7	31.8	
Cumulative payments to date	(347.4)	(323.2)	(294.8)	(280.3)	(235.6)	(220.4)	(197.1)	(95.7)	(84.1)	(94.3)	(4.5)	
Current gross claims provisions	4.9	11.7	5.9	5.2	2.7	15.7	23.7	16.0	36.9	76.3	27.3	226.3
2012 and prior												10.0
Claims Handling provision												4.8
Total												241.1

The Company changed its financial year-end from 31 December to 28 February during 2022, however accident years remained consistent with a calendar year. Consequently, the first development year from 2022 onwards represents only 2 months.

17. Financial instruments

	2023 £m	2022 £m
Financial assets at fair value through profit and loss		
Property Fund	19.2	23.1
Available-for-sale investments		
Debt securities - fixed rate		
Supranational / Agency bonds	93.6	85.1
Corporate bonds	461.9	491.4
Total financial investments	574.7	599.6

The movements in financial investments are as follows:

	AFS 2023 £m	FVPL 2023 £m	Total 2023 £m	AFS 2022 £m	FVPL 2022 £m	Total 2022 £m
Balance at 1 March/1 January	576.5	23.1	**599.6**	623.9	18.3	**642.2**
Additions	179.0	-	**179.0**	111.6	-	**111.6**
Sales and redemptions	(154.0)	-	**(154.0)**	(123.4)	-	**(123.4)**
Fair value unrealised gains and losses - AFS assets	(46.0)	-	**(46.0)**	(36.8)	-	**(36.8)**
Fair value through profit and loss gains and losses	-	(3.9)	**(3.9)**	-	4.8	**4.8**
Amortisation of premiums and discounts	(0.0)	-	**(0.0)**	1.2	-	**1.2**
Balance at 28 February	555.5	19.2	**574.7**	576.5	23.1	**599.6**

As at 28 February 2023 the current portion of financial investments available for sale is £39.5m (2022: £142.7m) and the non-current portion is £516.0m (2022: £433.8m). As at 28 February 2023 the property investment where fair value is through the profit and loss account is non-current 2022: £19.2m (2022: £23.1m).

The effective annual interest rate at the statement of financial position date on sterling investments is 2.11% (2022: 1.75%).

During the period £0.02m (2022: £0.11m) of available-for-sale debt securities has been reclassified from previously unrecognised gains or losses within OCI to profit or loss on disposal.

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 other than quoted prices included within Level 1 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, in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- 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.
- The property fund (Level 3) is valued each month by independent 3rd party surveyors. During the 2nd half of 2022 the valuation fell as a result of macro-economic uncertainty and trading in this fund was suspended due to a lack of liquidity. An illiquidity provision of £0.3m has been applied to the net asset valuation of the fund to reflect this ongoing uncertainty.

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:

Notes to the financial statements

17. Financial instruments (continued)

	2023			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss				
Property Fund	-	-	19.2	19.2
Available-for-sale investments				
Debt securities - fixed rate	555.5	-	-	555.5
Total financial investments	555.5	-	19.2	574.7

	2022			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss				
Property Fund	-	23.1	-	23.1
Available-for-sale investments				
Debt securities - fixed rate	-	576.5	-	576.5
Total financial investments	-	599.6	-	599.6

In the year to 28 February 2023, the property fund was moved from Level 2 to Level 3 and debt securities were moved from Level 2 to Level 1.

18. Insurance and other receivables

	2023	2022
	£m	£m
Receivables arising from insurance contracts: reinsurers	17.0	6.2
Amounts due from group undertakings	19.1	11.2
Salvage and subrogation recoveries	43.7	22.1
Other receivables and prepayments	5.5	3.6
Accrued interest income	9.3	8.3
Deferred other charges	0.8	0.6
Total insurance and other receivables	95.4	52.0

Amounts due from group undertakings relates primarily to premiums paid by policyholders to Tesco Personal Finance plc which have yet to be passed to the Company.

19. Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank	19.2	14.2
Cash equivalents	26.7	50.3
Cash and cash equivalents	45.9	64.5

Cash and cash equivalents include liquidity funds of £20.8m (2022: £25.4m) and custodian funds of £5.9m (2022: £24.8m).

20. Financial Liabilities – loans and borrowings

	2023 £m	2022 £m
Non-current liabilities		
Subordinated Debt	42.3	42.3
Accrued interest	0.4	0.2
Total loans and borrowings	42.8	42.5

The subordinated debt, payable to Tesco Personal Finance plc, bears interest at 3.5% plus the SONIA rate on the first day of the interest period on £28m and 4.5% plus the SONIA rate on the first day of the interest period on £14.3m. Interest is paid quarterly. The loan has no stated maturity.

21. Current tax asset

The current tax asset of £0.3m (2022: £0.6m) represents the amount of income taxes receivable in respect of the current period.

22. Insurance payables, other payables and deferred income

	2023 £m	2022 £m
Amounts due to group undertakings	1.5	1.3
Direct insurance contract payables	4.0	0.3
Other payables and accrued expenses	19.6	17.1
Lease liability (note 13)	1.0	0.3
IPT, VAT and other taxes payable	12.4	7.4
Total insurance payables, other payables and deferred income	38.5	26.3

Amounts due to group undertakings are unsecured, interest free and repayable on demand in cash.

23. Funds withheld

TU has put in place a quota share contract as part of its overall reinsurance protection strategy. A funds withheld account is maintained which represents the balance due to reinsurers in accordance with the terms of this reinsurance agreement. The balance of £123.5m (2022: £114.8m) is the net of premiums payable, commission receivable, claims recoveries receivable and profit commission receivable or payable, with the reinsurance margin paid over eight quarterly instalments. The funds withheld account is made up of quota share funds withheld of £132.7m and a profit commission of (£9.2m) (which is part of the contract but is a separate payable). The contract will be commuted four years from inception.

Of the above balance of £123.5m, £24.6m (2022: £9.5m) is classified as current, and £98.9m (£105.3m) as non-current at the period-end.

Notes to the financial statements

24. Pension scheme

The Company participates in the Tesco Retirement Savings Plan in respect of all staff; it is a defined contribution scheme. The assets of the plan are held by Legal & General. The pension cost in respect of members represents contributions payable by the Company to both funds over the 12-month period and amounted to £797,094 (2022: £1,049,079).

25. Share capital

In millions of shares	2023	2022
Ordinary shares in issue at 28 February	129.7	129.7
Ordinary shares authorised at 28 February	500	500

At 28 February 2023, the issued share capital comprised 64,704,166 ordinary A shares and 64,963,501 ordinary B shares. Both A and B ordinary shares have a par value of £1 and were fully paid up at the end of the period.

The beneficial owners of A and B 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. All shares rank equally with regard to the Company's residual assets.

26. Staff numbers

	2023	2022
Business acquisition	36	38
Claims handling	262	242
Administration	34	62
	332	342

The full-time equivalent number of employees was as follows:

	2023	2022
Business acquisition	35	52
Claims handling	251	217
Administration	33	68
	319	337

The average number of persons employed by the Company during the period was as follows:

	2023	2022
Total number of employees	338	335
Full time equivalent number of employees	327	322

Notes to the financial statements

27. Related party transactions

Identity of related parties

The Company has a related party relationship with its directors. The directors include the key management of the Company. There were no balances outstanding with the directors at year-end. There were no transactions entered into with the directors during the 12 months up to 28 February 2023 or in 2020 other than the remuneration disclosed in Note 28.

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

	2023 Costs £m	2023 Balances £m	2022 Costs £m	2022 Balances £m
Ageas (UK) Limited	-	-	1.0	-
Ageas (UK) Limited - subordinated loan	-	-	0.3	-
Tesco Personal Finance plc	8.1	(17.8)	23.9	(10.1)
Tesco Personal Finance plc - subordinated loan	2.4	42.8	1.7	42.5
	10.5	24.9	26.9	32.4

Tesco Personal Finance plc provides the Company with IT and management services.

Tesco Personal Finance plc have provides the Company with a subordinated loan of £42.5m. Refer to Note 20 for more details on the loan.

28. Directors' remuneration

	2023 £m	2022 £m
Short-term employee benefits	1.1	1.3
Post-employment benefits (see note below)	-	-
Share-based payments (Note 29)	-	-
	1.1	1.3

The aggregate of emoluments of the highest paid director was £407,395, with no post-employment benefits (2022: £635,337, with no post-employment benefits). Post-employment benefits for all Directors in the 12-month period ending 28th February 2023 were £nil (2022: £1,370).

In addition to their salaries, the Company also provides non-cash benefits to directors (medical insurance).

29. Share-based payments

Long-term incentive plans are in place for selected executives and senior managers. Awards in shares made under these plans will normally vest 3 to 5 years after the vesting date(s) set on the date of the award for nil consideration. Vesting is conditional on the achievement of specified performance targets over a three year performance period and/or continuous employment. No payments have been made from this scheme to date.

30. Ownership

The Company is owned by Tesco Personal Finance plc, a company registered in Scotland, whose registered address is 2 South Gyle Crescent, Edinburgh, United Kingdom, EH12 9FQ. Financial Statements for Tesco Personal Finance plc can be obtained from its registered office.

The ultimate holding company of Tesco Personal Finance plc is Tesco plc incorporated in England and Wales. The Financial Statements for Tesco plc can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

The smallest group into which the Company is consolidated is Tesco Personal Finance plc and the largest group is Tesco plc.

31. Subsequent events

There were no events after the reporting date which have required either adjustment or disclosure in these Financial Statements.