TESCO Underwriting Limited

Solvency and Financial Condition Report (SFCR)

For the Period Ended 29 February 2024

Tesco Underwriting Limited
Company Registration Number: 6967289

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SUMMARY

This is the eighth Solvency and Financial Condition Report (SFCR) for Tesco Underwriting Limited (TU, the Company) since Solvency II came into force in 2016. All amounts in the tables of this SFCR are denominated in £'000, unless stated otherwise.

A. Business and Performance

Tesco Underwriting Limited (TU) is a wholly owned subsidiary of Tesco Personal Finance plc ('Tesco Bank'). TU is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

During the year ending 29th February 2024 TU continued its underwriting of personal lines insurance business (car and home) distributed by Tesco Bank.

TU has been compliant with Solvency II requirements since the beginning of 2016 and had capital resources of 158% (2023:159%) of its Solvency Capital Requirement (SCR) on 29th February 2024.

The IFRS profit before tax for the year ending 29th February 2024 was £35.8m.

As noted above, at the end of February 2024 TU's capital position was:

- Solvency II Own funds - £223.0m (2023: £195.2m).
- Approved Partial Internal Model (PIM) Capital Requirement - £140.7m (2023: £122.8m).
- Solvency Ratio – 158.4%. (2023: 159.0%).

The vision for the Company is to be the "Insurer of choice for Tesco Customers" whilst the overall role for TU 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.

On 9 February 2024, the Group announced an agreement on the terms of a proposed sale of the majority of the Tesco Group's Banking business, comprising its Personal Loans, Credit Cards and Savings portfolios, together with certain associated assets and liabilities, including the Group's securitisation special purpose vehicles for £600m. All other existing activities of the Tesco Group, including Insurance, ATMs, Travel Money and Gift Cards will remain within the Tesco Group.

TU operates in a highly competitive market place with ongoing regulatory change.

Throughout the year to 29 February 2024 TU has maintained a regular dialogue with the PRA including updates on actual and expected capital coverage reinsurance strategy and operational resilience plus general business progress and the sharing of Board papers.

B. System of Governance

The role of the TU Board is to provide oversight of TU's business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements. The Board delegates authority to certain Board committees in order that they may monitor and oversee specific aspects of the business on behalf of the Board. The Board committees are accountable to the Board, and responsibility rests with the Board.

The TU Board has delegated authority and responsibility for key activities to designated Senior Managers in accordance with the requirements of the Senior Managers and Certification Regime ("SM&CR"). The allocation of significant responsibilities is documented and maintained within TU's Management Responsibilities Map.

TU has put in place policies and procedures that provide evidence of fitness and propriety for Directors, Senior Managers and those responsible for discharging a key function. Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual's skills and experience.

As part of Tesco Bank acquiring 100% ownership of the TU business a comprehensive Change in Control process involving Regulator discussion and challenge was undertaken. This included the governance arrangements needed to support this whilst taking account of the requirements to ensure the TU Board and Tesco Bank Board have appropriate clarity around the respective roles and responsibilities as two separate regulated entities. During the Change in Control application a number of potential Conflicts of Interest were identified and the risks were explored and controls put in place to give comfort that these could be managed in line with the TU and Tesco Bank Conflict of Interest policies.

TU operates a "Three Lines" governance model to provide reasonable assurance that the Company is run in a proper way. TU management and staff have the primary responsibility for owning and managing risks (First Line). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (Second Line). Internal Audit provide independent verification and challenge of the adequacy and effectiveness of the internal risk and control framework (Third Line).

The goal of TU's approach to risk management is to ensure that all significant risks are understood and effectively managed through a well-designed risk management framework. The objective of such a framework is to add value to the business as well as ensure adequate systems and controls operate.

C. Risk Profile

TU defines risk as the deviation from anticipated outcomes that may have an impact on its solvency, earnings, liquidity, customers and/or reputation and therefore its business objectives and/or future opportunities. TU's risks therefore stem from its exposure to both external and internal risk factors in conducting its business activities. TU only seeks to take on risks that:

- It has a good understanding of (i.e. is within current expertise and available information);
- Can be adequately managed at both the individual and overall portfolio level;
- Are affordable (i.e. within the TU risk appetite); and
- Have an acceptable risk-reward trade-off

The most significant risks that TU is exposed to are: Non-Life Insurance risk, Financial Risk, Operational Risk and Strategic Risk – these and all risks with the TU Taxonomy are managed through a combination of polices, processes, controls and reports. Controls are designed to keep risks within appetite, with a formal risk acceptance process managed through quarterly review by the Management Risk Committee (MRC) and subsequently by the Board Risk Committee (BRC).

The monitoring of these risks as assessed by the business (First Line) is facilitated by the quarterly Control Risk Self-Assessment (CRSA) process, and articulated around the annual Strategic Planning and ORSA (Own Risk and Solvency Assessment) processes, supported by relevant modelling approaches.

D. Valuation for Solvency Purposes

It should be noted that the adoption of IFRS 17 has a significant impact on the presentation of the IFRS balance sheet, as well as the measurement of insurance contract and reinsurance contract liabilities and assets. The valuation of assets and liabilities for Solvency II purposes is the same as IFRS except for:

- Deferred acquisition costs, other intangibles, tangible fixed assets and prepayments are excluded from the SII balance sheet.
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments.
- Premium provisions (IFRS: liabilities and assets for remaining coverage) are discounted cash flows for SII balance sheet valuation purposes.
- Subordinated debt within the IFRS balance sheet classified as subordinated liabilities has been reclassified from liabilities to own funds in line with SII requirements. Each of the eligibility criteria required for the subordinated debt to qualify as Tier 1 capital, as set out in Article 73 of delegated regulation (EU) 2015/35 have been met. The debt is fully subordinated in the event of a winding up, with the claims of the holder of the debt subordinated to the claims of the senior creditors (including policyholders and non-subordinated creditors). The subordinated debt is fully available to absorb losses and is free from encumbrances.

The valuation adjustments for 2024 started from IFRS 17 balance, while for 2023, they were based on IFRS 4. Key valuation adjustments are shown in the table between IFRS and SII balance sheet illustrated below:

	Actual 2024	**Actual 2023**
Total Shareholders Equity	202,674	157,004
Subordinated Liabilities	42,333	42,333
Total Valuation differences	**(22,016)**	**(4,099)**
Derecognition of intangible assets	(24,782)	(16,398)
Derecognition of prepayments	(2,707)	(1,887)
Net best estimate of discounted liabilities	24,801	12,820
Tax impact on valuation differences	672	1,366
Forseeable dividend	(20,000)	-
Total Solvency II Own Funds (PIM)	222,991	195,238

The SII Own Funds increased in the period ending 29 February 2024 relative to 28 February 2023. This difference is driven by a combination of business profitability partly offset by a decrease in unrealised losses on financial assets.

E. Capital Management

TU operates a capital contingency plan which gives the business guidance on actions / considerations at different SII capital coverage levels. For example, TU successfully implemented its Capital Contingency Plan in the first quarter of 2017 following the announcement of the reduction in the Ogden discount rate to minus 0.75% on 27th February 2017. Together with 2017 profitability and the implementation of additional reinsurance this increased TU's coverage from 101% to 169% at the end of 2017.

At the period year end of 29th February 2024 TU had SII own funds of £223.0m (Feb 2023: £195.2). With the TU SCR PIM at £140.7m (Feb 2023: £122.8m) this resulted in capital coverage of 158.4% (Feb 2023: 159.0%).

Directors' Statement

Approval by the Board of Directors

Year ended 29 February 2024

We certify:

(a) That the Solvency and Financial Condition Report ("SFCR") has been prepared in all material respects in accordance with the PRA Rules and Solvency II Regulations, and

(b) We are satisfied that:

(i) throughout the financial year in question, Tesco Underwriting has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer, and

(ii) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

Gary Duggan
CEO

Paul Cartin
Finance Director

3 June 2024

Auditor's Statement

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF TESCO UNDERWRITING ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 29 February 2024:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 29 February 2024, ('the Narrative Disclosures subject to audit'); and
- company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.28.01.01('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the relevant elements of the SFCR set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21, S.25.02.21, S.25.03.21;
- of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 29 February 2024 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standards as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

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

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

- assessing the impact of the sale of Tesco Personal Finance's banking business to a third-party external to the Tesco Group;
- 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;
- assessing the appropriateness of the going concern disclosures; 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.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and, we do not express an audit opinion or 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 relevant elements of the SFCR, 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 there is a material misstatement in the relevant elements of the SFCR 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR 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 it 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 decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities including those that are specific to the company's sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II as implemented in the UK and tax legislation; and

do not have a direct effect on the SFCR but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included Companies Act 2006 and related Company Law, regulatory solvency requirements and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as actuarial, tax, valuations, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

Insurance contract liability for large bodily injury claims and related reinsurance assets - IFRS 17 best estimate liabilities are the initial basis of Solvency II Technical Provision (TP) derivation and upon which management make necessary adjustments. Estimating the undiscounted best estimate is inherently subjective and requires the use of complex modelling techniques and the consistent application of judgement and estimation using appropriate methodologies and assumptions.

Within the technical provisions, large bodily injury ("BI XS") claims relating to motor insurance policies represent the most significant area of management judgement. Our identified risk is focused on the key assumptions used in calculating the undiscounted best estimate for BI XS claims, on a gross and net basis.

Given the impact of the significant judgements taken by Management in the measurement of the undiscounted best estimate for BI XS, we also consider there is an inherent risk of fraud as these judgements are subject to the risk of management bias.

We obtained an understanding of relevant controls in the process of estimating the undiscounted best estimate and tested that these controls were operating effectively. In conjunction with our actuarial specialists, we performed the following procedures:

- Calculated an independent reasonable range of the undiscounted gross and net best estimate for BI XS claims using management's data and our independently determined assumptions;
- Assessed the reasonableness of any differences noted between our independent projection and Management's result with reference to our determined reasonable range;
- Obtained and inspected the reserving reports from management, and assessed and challenged methodologies and key assumptions;
- Assessed management's roll forward of results from the pre-period-end full reserving review to the period-end;
- We reviewed the undiscounted best estimate and considered the differences between the IFRS and Solvency II TPs; and
- We verified that the starting point of the SII technical provisions was on a best estimate basis by comparing against audited IFRS 17 best estimate liabilities.

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

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

- reviewing SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with the PRA and FCA, reviewing internal audit reports and reviewing correspondence with HMRC.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using a partial internal model (‘‘the Model’’) approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company’s application or approval order.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Tesco Underwriting’s statutory financial statements. 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 relation to this matter.

Use of our Report

This report is made solely to the Directors of Tesco Underwriting in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA’s rules. Our audit work has been undertaken so that we might state to the insurer’s Directors those matters we are required to state to them in an auditor’s report on the relevant elements of the SFCR 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 PRA, for our audit work, for this report or for the opinions we have formed.

Tom Noble
For and on behalf of Deloitte LLP
Bristol, UK
3 June 2024

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the SFCR that are not subject to audit comprise:

The following elements of template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of template S.12.01.02

- Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions

The following elements of template S.17.01.02

- Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0290 to R0310 – Amount of transitional measure on technical provisions

The following elements of template S.23.01.01

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.01.01

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A

BUSINESS and PERFORMANCE (unaudited)

A.1 Business

A.1.1 General Information

The following terminology is used to denote the entities referred to within this document:

- Tesco Underwriting Limited ('TU or the 'Company').
- Tesco Personal Finance plc ('Tesco Bank' or 'the Shareholder').
- The Board of Directors of TU ('the Board')

TU is registered in England and Wales and its registered address is The Omnibus Building, Lesbourne Road, Reigate, Surrey, United Kingdom, RH2 7LD.

Tesco Bank is registered in Scotland and its registered address is 2 South Gyle Crescent, Edinburgh, EH12 9FQ.

TU's auditors are Deloitte LLP, 1 New Street Square, London, EC4A 3HQ.

A.1.2 Group Structure and ownership

TU is a wholly owned subsidiary of Tesco Bank. TU is authorised by the PRA and regulated by the FCA and the PRA.

Contact details are:

The PRA
Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA
12 Endeavour Square
London
E20 1JN

Tesco Bank is wholly owned by Tesco Personal Finance Group plc which is owned by Tesco PLC.

A.1.3 Description of our material lines of business and material geographical areas where we write business

The Company underwrites personal Motor and Home insurance policies for Tesco Bank customers and provides these customers with a claims management service.

The Company's policies are written within the United Kingdom.

A.1.4 Challenges facing insurers

Technology, digitisation, regulation, capital, climate change, reinsurance costs, inflationary pressures and a highly competitive market remain the largest challenges facing insurers.

Consumer behaviours are also changing. Customers are more discerning, seeking greater control and demanding the highest levels of service. As a part of that evolution, they expect a greater degree of customisation and personalisation. To meet this need, we are investing in data analytics to enable us to support our pricing and customer experience. We will also use the insight from data to engage with our customers at an earlier stage, shifting the emphasis more towards risk prevention.

We maintain, at all times, a keen focus on treating customers fairly and ensuring we have a flexible approach to meet the needs of a diverse customer base including specific consideration of the needs of vulnerable customers which continues to be a key area of focus for the Board.

A.2 Underwriting Performance

A.2.1 Non-life Insurance

The overall role of TU is to support the Tesco Bank personal lines insurance strategy through innovative underwriting and product initiatives, whilst driving financial returns for the shareholder by maintaining strong underwriting, risk and financial controls.

TU has defined a business strategy and vision. The core strategy for the business is to optimise the end to end value of the business and the assets and capabilities of the Tesco Bank Group.

A.2.2 Results and Capital position

The IFRS results of the business are as follows:

Total £'000	2024	2023 Restated*	Variance
Gross Written Premium	533,242	326,659	206,583
Insurance Revenue	420,448	309,286	111,162
Insurance Service Expense	(359,612)	(215,227)	(144,385)
Insurance Service Result before reinsurance contracts held	60,836	94,059	(33,223)
Net Expense from Reinsurance Contracts	(40,577)	(50,601)	10,024
Insurance Service Result	20,259	43,458	(23,199)
Other Income	1,103	1,370	(267)
Investment Income	19,836	9,382	10,454
Insurance Finance Income/(Costs)	(5,383)	(3,111)	(2,272)
Profit before Tax	35,814	51,098	(15,284)

An analysis of the individual lines of business (Motor and Home) can be found in QRTs S.05.01.01 (Non-Life and Life) in the Appendix. The IFRS post-tax Profit for the period ending 29th February 2024 was £27.0m (2023 £41.5m profit).

Net Assets on an IFRS basis as at 29th February 2024 were £202.7m (2023: £167.4m (restated)).

Solvency II available capital at the period end 29th February 2024 £223.0m (2023: £195.2m) which is 158.4% (2023: 159.0%) of the Partial Internal Model Solvency Capital Requirement (PIM SCR).

Dividend of £20m has been proposed and approved for the period ending 29th February 2024.

*Note : 2023 Numbers have been restated under IFRS 17.

A.3 Investment Performance

A.3.1 Information about the investment performance

Investment income increased by 102% during the period ending 29th February 2024 mainly as a result of increased interest revenue from due to increased yields on all investments for the period, which combined with a smaller losses than previous period from the property fund. The property losses continued as a result of inflationary pressures and increasing interest rates affecting capital market pricing.

A.3.2 Investment performance by asset class:

Investment Income £'000	2024	2023 Restated*
Supranational/Agency Bonds	2,248	1,511
Corporate Bonds	16,708	10,187
Property	(1,642)	(3,312)
Bank Deposits	2,522	996
Total investment income	19,836	9,381

Period ending 29th February 2024 Investment income including realised gains and excluding investment expenses was £19.8m (2023: £9.3m). The main reason for the rise is due to the increase of interest revenue as explained in A.3.1.

The portfolio quality remains strong with the overall average "A+" rating.

*Note : 2023 Numbers have been restated under IFRS 17.

A.3.3 Gains and losses recognised directly in equity

Assets available for sale £'000	2024	2023
Unrealised Gains	45,511	47,472
Unrealised Losses	(31,110)	(93,432)
Total	14,401	(45,960)

At 29th February 2024 the market value of TU's bond portfolio is still lower than the booked value and therefore in an overall unrealised loss position. The volume of losses has decreased by £14.4m during the year ending 29th February 2024, as the adverse factors that existed in last period were improving during this year, and therefore representing a gain in the current year.

A.4 Performance of other activities

There are no other material activities to report upon.

A.5 Any other information

There is no other information to report upon.

B

SYSTEM
OF
GOVERNANCE (unaudited)

B.1 General Information on the system of governance

B.1.1 Overall governance framework

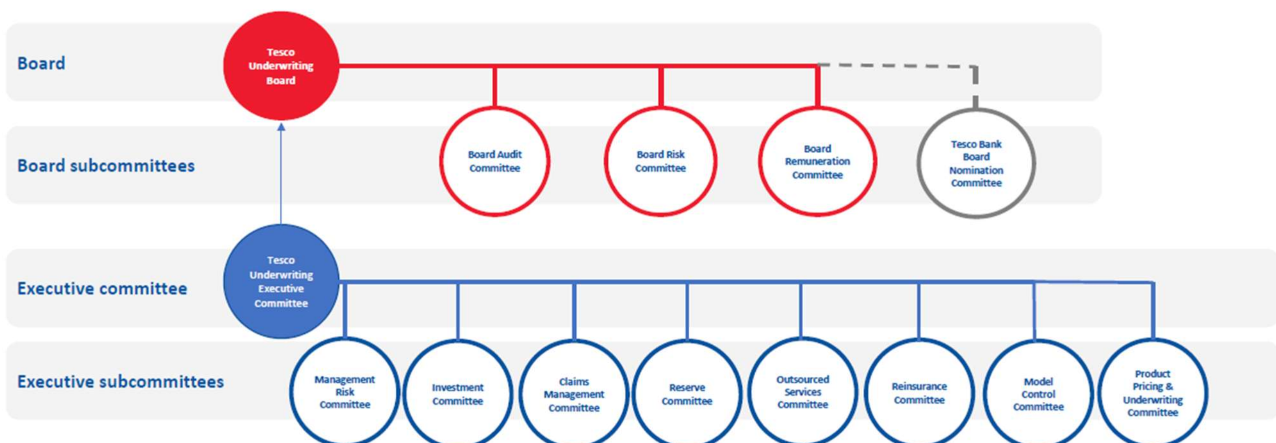
The Board has approved a governance framework which complies with the Wates Corporate Governance Principles for Large Private Companies and is also based upon the high level principles and best practice contained within the Prudential Regulation Authority (PRA) Rulebook, the Financial Conduct Authority (FCA) Handbook, and certain applicable aspects of the UK Corporate Governance Code.

The TU Governance Framework (the 'Governance Framework') is a combination of structures, rules, practices and procedures which help to ensure that the Company is organised and controlled in a way that supports achievement of purpose, including compliance with legal and regulatory matters. The Governance Framework supports accountability, fairness, transparency and responsibility. There are several elements which together form the Governance Framework and these include the ownership structure, governance structure, the Board and its subcommittees (and their respective terms of reference), the Executive Committee, various Executive subcommittees, meeting dates, paper templates, delegated authorities and guidance material.

In addition to the Governance Framework, Senior Management responsibilities are outlined within specific job descriptions and the TU Management Responsibilities Map (where applicable), as well as through policies, procedures and processes which record accountabilities. Compliance with these standards and requirements helps to ensure that TU meets not only the expectations of its shareholder but also other key stakeholders in the business such as customers, employees, business partners and regulators.

Good corporate governance means that TU maintains the flexibility to adapt its structure to altered circumstances, new legislation and other significant events. The Board will annually, or more frequently when circumstances so require, review the components of the Governance Framework and make such changes as it deems appropriate. The key components of the Governance Framework are summarised below.

TESCO UNDERWRITING BOARD AND EXECUTIVE COMMITTEE GOVERNANCE STRUCTURE



Board of Directors

The role of the Board is to provide oversight of TU's business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements. Board Reserved Matters are defined in the Board Terms of Reference.

Board Committees

Each Board Committee has its own Terms of Reference which is reviewed at least annually and approved by the Board.

The Board Audit Committee

The role of the Board Audit Committee is to support the Board in fulfilling its responsibilities for oversight of the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The Board Risk Committee

The role of the Board Risk Committee is to support the Board in fulfilling its responsibilities for oversight of the adequacy and effectiveness of risk governance and its capital allocation and models and in particular the risk profile relative to the risk appetite determined by the Board.

The Board Remuneration Committee

The Board Remuneration Committee's role is to support the Board in all matters relating to the remuneration of the TU executive directors and relevant senior managers. Its primary role is to consider and make recommendations for approval by the Board on any material decision relating to the remuneration, benefits, employment terms and/or pension scheme arrangements of the TU Chief Executive Officer and his executive direct reports.

The Tesco Bank Nomination Committee supports TU and any TU matters considered are recommended to the TU Board for approval.

Senior Management and Executive Committees

The Governance Framework also includes several Executive level committees which support Senior Managers with their responsibilities. Senior Managers are required to demonstrate they are accountable and responsible in delivering effective governance, including taking responsibility and being accountable for the decisions they make, and exercising rigorous oversight of the business areas they lead. In exercising this role, Senior Management are responsible for complying with the legal and regulatory framework applicable to the business.

Executive Committee

The Executive Committee's role is to support the Chief Executive Officer by providing oversight and challenge in the efficient and effective delivery of the strategic plan and overall direction of the TU business.

Model Control Committee

The role of the Model Control Committee is to support the Chief Risk Officer by providing assurance that all models included on the Model Register are appropriate and effective in their design and operation.

Investment Committee

The Investment Committee supports the Finance Director by considering and monitoring external investment managers and advisers, investment strategies, investment guidelines, limits and standards, control processes and compliance with investment mandates.

Reinsurance Committee

The role of the Reinsurance Committee is to support the Chief Executive Officer and Finance Director by overseeing the implementation of the TU reinsurance strategy, identifying reinsurance needs in the context of the overall business strategy, detailing reinsurance requirements, reviewing the appointment of placing brokers, negotiating policy terms and monitoring treaty placement.

Claims Management Committee

The Claims Management Committee supports the Claims Director by providing oversight and challenge in the efficient and effective delivery of the Claims strategic plan and overall direction of the TU Claims function.

Management Risk Committee

The Management Risk Committee support the Chief Risk Officer in managing and discharging their responsibilities. This includes oversight and challenge in connection with the Risk Management Framework, risk monitoring and assessment, consideration of matters identified by Internal Audit and review of Board level reporting.

Outsourced Services Committee

The Outsourced Services Committee supports the Claims Director by providing oversight and challenge in the efficient and effective delivery of outsourced services in line with the Outsourcing and Third Party Supply Policy and Outsourcing and Supply Chain Management Framework.

Product, Pricing and Underwriting Committee

The Product, Pricing and Underwriting Committee enables the Chief Executive Officer of Tesco Underwriting to provide oversight and challenge across insurance products and pricing for TU.

Reserve Committee

The Reserve Committee supports the Finance Director and Chief Actuary by reviewing and overseeing the quarterly reserving process, making reserving recommendations, monitors compliance with the TU Reserving Policy and considers a best-estimate view of reserves.

Delegation of Authorities

The TU Delegation of Authorities Schedule ('DoA') forms part of the Governance Framework. The DoA enables effective and efficient decisions that incur financial cost or gain to TU to be made by the appropriate person(s). It works on the principle of cascading authority down from the Board to the Chief Executive Officer, then to Senior Manager Function holders and other Senior Managers. Senior Managers are accountable for all decisions in their areas of responsibility and can delegate only to those colleagues who are Certified (under the Senior Managers and Certification Regime) or where the colleague has appropriate expertise and experience. Senior Managers remain accountable for the decisions made, and the actions taken, within their areas of responsibility.

Shareholder Relations

Shareholder Reserved Matters have been agreed between Tesco Bank and TU. These are the matters which require agreement (which is referred to as concurrence) from Tesco Bank. TU also has a responsibility to share certain key matters with Tesco Bank. One of the ways it does this is by providing reports such as an Insurance Business Report from the TU CEO, performance metrics as part of Board

management information and an annual report from the TU Board Audit Committee Chair. The relationship between TU and Tesco Bank needs to be well balanced, taking into account the interests of TU and its responsibilities as a separate legal entity and the responsibility of Tesco Bank as its parent company. If a disagreement were to arise there are agreed escalation routes which are designed to help facilitate appropriate outcomes. The primary route would involve the TU Board Chair communicating with Tesco Bank CEO to agree whether to escalate to the Tesco Bank Board.

B.1.2 Material transactions during the reporting period

At 29 February 2024 TU's subordinated loan advanced by its shareholder, Tesco Bank, was in two tranches:

- £ 28,000,000 which carries an interest rate of SONIA + 3.5%, payable quarterly
- £ 14,333,333 which carries an interest rate of SONIA + 4.5%, payable quarterly

TU has related party balances with Tesco Bank who provide various outsourced services including IT, Property and HR related services and costs.

TU does not have any intra Group reinsurance arrangements.

B.1.3 Material changes in systems of governance over the reporting period

There have been no material changes in systems of governance over the reporting period.

B.2 Fit and proper requirements

B.2.1 Policies and processes to ensure colleagues comply to fit and proper requirements

In accordance with the requirements of SM&CR, the responsibilities for running TU are allocated across each senior manager and set out within individual Statements of Responsibilities. This allocation includes the Prescribed Responsibilities designated by the PRA and FCA, with each Prescribed Responsibility being allocated to a SMF role holder who is the senior manager wholly accountable for it. The allocation of key responsibilities across TU, including the Prescribed Responsibilities, is shown within the Management Responsibilities Map.

The Board needs to collectively hold the qualifications, knowledge and experience necessary to run a company of TU's size and complexity.

The obligation to be fit and proper continues for as long as the individual remains a Director, a Senior Manager, a certification function or a key function holder (KFH) and failure to remain fit and proper to perform their controlled function can result in the PRA/FCA prohibiting that individual from performing that function. TU has put in place policies and procedures that provide evidence of fitness and propriety, including a recruitment and appointment process for Directors, Senior Managers, certification functions and KFHs, a regular cycle of appraisals and performance reviews, and up to date training records, in addition to an annual self-certification exercise.

Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual's skills and experience and includes, but is not limited to:

- Detail of their personal characteristics (including being of good repute and integrity);
- Their level of competence, knowledge and experience;
- Their qualifications;
- Confirmation that they have undergone or are undergoing all training; and
- Financial soundness.

Details of TU's senior manager functions and KFHs notified to and approved by the PRA and/or the FCA under SM&CR are shown in B2.2.

B.2.2 List of people responsible for key functions as at 29 February 2024

Core Function	Role Holder	SMR/KFH	Reporting Lines
Board Chair	S Machell (INED)	SMF9	N/A
Audit Committee Chair	C Ramsay (INED)	SMF11 SMF14	N/A
Board Risk Committee Chair	M Cronin (INED)	SMF10	N/A
Remuneration Committee Chair	S Machell (INED)	SMF12	N/A
CEO leadership	G Duggan (TU CEO)	SMF1	S Machell (Board Chair) (SMF9)
Finance	P Cartin (TU FD)	SMF2	G Duggan (TU CEO) (SMF1)
Underwriting	L Matras (TU CUO)	SMF23	G Duggan (TU CEO) (SMF1)
Risk Management and Compliance	S Wright (TU CRO)	SMF4 SMF16 KFH	G Duggan (TU CEO) (SMF1) M Cronin (INED) (SMF10)
Actuarial	S Wright (TU CRO) (*)	SMF20 KFH	P Cartin (TU FD) (SMF2)
Internal Audit	S Queen (Tesco Bank Audit Director)	SMF5 KFH	Overseen by Audit Committee Chair
Claims	D Thompson (TU Claims Director)	SMF24	G Duggan (TU CEO) (SMF1)
People	L Rennie-Smith (Tesco Bank Director of Colleague Experience)	SMF18	Overseen by the Board Chair.

(*) S Wright was holding SMF20 in the interim period. A Bell received regulatory approval for SMF20 on 23 May 2024.

B.2.3 Remuneration entitlements over the reporting period

Principles of remuneration policy

TU has established governance and procedures relating to remuneration entitlements. It has established a Remuneration Policy, oversight of which is provided by the TU Remuneration Committee of Independent Non-Executive Directors, who consider and ensure the framework and arrangements that govern the remuneration of the Executive and Senior Management are appropriate, transparent and are aligned to TU's long term business strategy, risk appetite and values, and that the remuneration structure meets statutory, regulatory and shareholder requirements.

Details of Directors' Emoluments that are applicable to TU have been included within the notes to the financial statements of the Company for the year ending 29th February 2024 (note 8 Directors' remuneration).

The Remuneration Policy describes the following objectives:

- Attract the people needed to grow the business.
- Promote effective risk management and good customer outcomes.
- Motivate and incentivise colleagues to deliver business goals together.
- Recognise colleagues by acknowledging individual contribution and performance.
- Align colleagues to create shareholder value and support the achievement of the business strategy.
- Retain by fostering loyalty so that colleagues want to stay with us.

- Ensure investment in reward is affordable, competitive, simple, fair, consistent and sustainable.
- Colleagues are rewarded based on their role, responsibilities and performance regardless of gender, ethnicity, age, sexual orientation or any other characteristic.

The approach is to provide a combination of fixed and variable pay, consistent with UK market practices. Employees are eligible to participate in TU's Annual Bonus Plan and awards are linked to overall business performance and individual performance. The Plan includes an element of deferral for the most senior colleagues (WL4+). All employees in the UK are eligible to join a Defined Contribution Pension Scheme.

Specific Features of remuneration structure

The following features of the remuneration strategy contribute to ensuring remuneration of staff supplying services to TU is aligned with TU's business strategy, risk profile, objectives, risk management practises and long-term interests:

- Fixed Pay:
  - This represents a sufficient proportion of the remuneration package, so no individual is dependent on variable pay.
  - No element of TU staff's fixed pay is dependent on sales targets and/or volumes.
  - When we decide the salaries we pay for any role, we need to balance remaining competitive enough to attract and retain talent and managing our costs effectively.
  - We benchmark all roles annually against similar roles in the Financial Services industry including insurers. This benchmarking data, together with knowledge of local markets, competitors and recruitment challenges is used to manage our Job Family pay ranges ensuring the salaries paid are fair, competitive and affordable.

- Performance Targets:
  - All TU staff's quarterly priorities should be aligned to the delivery of TU's strategic business objectives.
  - Feedback and progress against the priorities is reviewed regularly to enable effective end-of-year reviews.
  - To achieve a particular rating, every employee's performance is measured both on what they deliver and how they do it as outlined in the Your Contribution Framework.

- Tesco Underwriting Annual Bonus Plan:
  - TU's Annual Bonus Plan guide describes the rules that will apply to all eligible colleagues.
  - The Plan rules are discretionary and apply for performance for the period ending 29th February 2024. Bonus payments are payable with salaries in May 2024.
  - There are multiple measures which are included within the calculation of the bonus pot which is agreed for distribution across colleagues based on their end of year rating and individual performance.
  - Bonus payment is discretionary and is subject to achievement of business and individual performance targets.
  - On target and maximum bonus opportunity is linked to Work Level.
  - A portion of the Annual Bonus for the most senior colleagues (WL4+) is deferred in shares for up to 2 years.

- Performance Share Scheme – the most senior colleagues in TU (WL4+) are eligible to participate in the Tesco Performance Share Plan. The Plan awards shares up to a % of the employee's salary which vest in 3 years at a level dependent on the performance measures set by Tesco Group. Specific conditions are in the plan rules relating to how the shares are managed if someone leaves TU for any reason.

- Supplementary Pension or Early Retirement Schemes – there are no supplementary pension or early retirement schemes for members of the Board or other key function holders.

As part of the Company's commitment to diversity and inclusion it has completed gender pay reporting in line with statutory requirements and has signed the HM Treasury's Women in Finance Charter.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management overview

As a Non-Life insurance provider TU faces a number of risks that, whether internal or external, may affect its operations, its earnings, the value of its investments or the sale of certain products and services. The fundamental principle underlying the Risk Strategy of TU is to maximise shareholder value within the constraints of the Risk Appetite Framework, taking into account the protection of policyholders. To this end, the risk exposures of TU are directed towards businesses that provide attractive risk-adjusted returns.

This chapter outlines how risks are managed through TU's Risk Framework Policy, Risk Taxonomy Policy and Risk Appetite Policy. It also contains an overview of TU's Risk Management organisation and governance.

In Section C (Risk Profile) TU's main risk exposures and the specific risk management frameworks applicable to them will be presented with regard to Insurance risks, Financial risks, Operational risks and Strategic risks.

The embedding of the Risk Strategy takes place in the quarterly Control Risk Self-Assessment (CRSA) process, articulated around the annual Strategic Planning and ORSA (Own Risk and Solvency Assessment) process, supported by relevant modelling approaches.

TU has chosen to adopt a Partial Internal Model (PIM), with Insurance Risk (TU's most material risk) being modelled using an Internal Model (IM), and all other risk types being modelled using the Standard Formula (SF). TU's internal model was approved in 2015 as part of the Ageas Group IMAP submission. In 2020 TU applied for a solo IMAP in anticipation of the Tesco Bank acquiring Ageas' stake of TU, this was approved in December 2020

TU's Model Control Committee (MCC) ensures that there is an appropriate level of oversight over the TU Capital Model, considering internal validation, independent model validation and other relevant assurance assessments. External Model Validation has been undertaken by EY since TU received its solo model approval. The scope of the 2023/24 validation work was approved by the TU BRC, and covered the following key areas:

1. Review of remediation taken against previous validation findings
2. Validation of model changes since the 2022/23 validation exercise
3. Testing of financial updates (e.g. revised business plan and balance sheet inputs)

This work concluded that with regards to the risk areas within the scope of the review the TU Partial Internal Model (PIM) remains compliant with Solvency II standards and the areas they have reviewed remain fit for the purpose of estimating the SCR. To compliment the independent validation work conducted by EY, the TU Risk Function has undertaken additional internal validation work to provide an overall validation opinion that the TU Partial Internal Model meets all regulatory requirements.

B.3.2 Risk management framework

TU defines risk as the deviation from anticipated outcomes that may have an impact on the value of assets, capital, earnings, customer or reputation of TU, its business objectives, or future opportunities. TU risk therefore stems from its exposure to both external and internal risk factors in conducting its business activities. TU only seeks to take on risks for which:

- It has a good understanding of (i.e. is within current expertise and available information);
- Can be adequately managed at both the individual and overall portfolio level;
- Are affordable (i.e. within the TU risk appetite); and
- Have an acceptable risk-reward trade-off.

The aim of TU's Risk Framework is to support the business in ensuring that all significant risks are understood and effectively managed, and where they cannot be, they are appropriately escalated. The objective of such a framework is to add value to the business as well as ensure adequate systems and controls operate by:

- Ensuring that risks which affect the achievement of objectives are identified, assessed, monitored, managed, and reported.
- Defining Risk appetite and risk tolerance limits to ensure that the risk profile is kept within these parameters when seeking to meet the Company's strategy and objectives.
- Supporting the decision-making process by ensuring that consistent, reliable, and timely risk information is available and understood by decision makers.
- Creating a risk aware culture in which each staff member carries out their duty to be aware of the risks to their business, to manage them adequately, and to report them transparently.
- Promoting the risk aware culture so that all colleagues are encouraged to report risks which are identified during the operation of their duties.
- Ensuring that we promote a program of independent risk assessment, conducted by 1st line risk champions, 2nd line, and 3rd line.

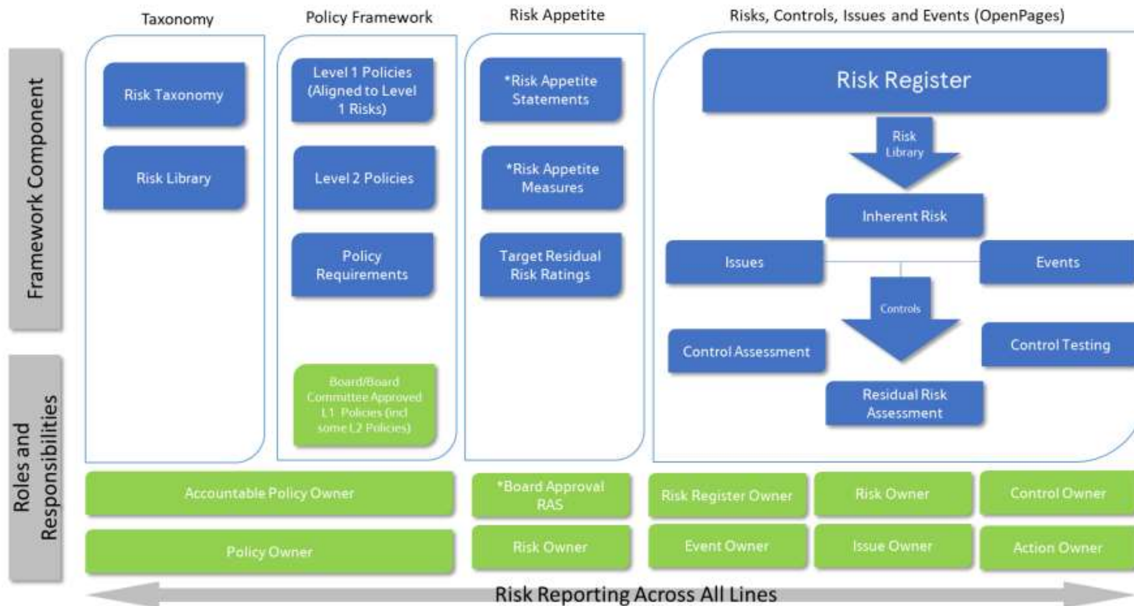
To reach this objective TU has a risk management framework in place designed to systematically and comprehensively identify risks to the Company's objectives, assess their impacts and implement integrated mitigation strategies to safeguard the objectives. Risk management is a process, carried out by TU's Board of Directors, management and other personnel. It is applied during the strategy setting process as well as in the everyday management of the Company and is designed to identify potential events that may impact TU, manage risks to be within its risk appetite and to provide reasonable assurance regarding the achievement of TU's objectives.

To ensure that the risk management processes are embedded within the business, TU's risk management incorporates:

- A formal structure of Committees ensuring coverage of material risks;
- Risk policies containing defined appetites and tolerance limits for all risk categories;
- Regular management information; and
- A three lines risk governance model.

As part of its risk management framework, TU also has a forward looking Own Risk and Solvency Assessment (ORSA) process that takes into account its risk profile, approved risk tolerance limits and business strategy.

At TU, risk management is based on a set of guiding principles, which are captured by the risk management framework (see illustration below from the TU Risk Framework Policy for more detail). TU seeks to ensure that all significant risks are continuously identified, assessed, managed and monitored in accordance with the guidelines and standards, and intended (implicitly) to guide all business conduct within TU.



Risk Taxonomy

The TU Risk Taxonomy is a classification of the risks faced by the business. It is designed to ensure a consistent and comprehensive approach to risk identification, assessment, monitoring and response by highlighting and categorising all identified risks within the Company.

TU's Risk Taxonomy is linked to the overall policy framework and is divided into four broad categories: Operational Risk, Insurance Risk, Financial Risk and Strategic Risk. These categories have been aligned with Solvency II risk categories to facilitate our internal and external reporting.

Identified risks, categorised in accordance with the TU risk taxonomy are assessed and reported using a standard likelihood and impact grid which provides an overview of the overall level of concern that each risk represents (i.e. their materiality). The risks are qualitatively assessed in relation to the objectives with which they are associated.

The taxonomy should not be considered as exhaustive but as a framework within which we consider the risks TU faces. It is the responsibility of business and risk management to ensure that all risks material to the business are identified.

TU has chosen to adopt a Partial Internal Model (PIM), with Insurance Risk (TU's most material risk) being modelled using an Internal Model (IM) and all other risk types being modelled using the Standard Formula (SF).

The Board approves the TU ORSA Report which sets out the justification for TU's modelling approach.

Section C (Risk Profile) explains TU's various risk exposures in more detail.

Risk Appetite

TU's Risk Appetite is defined as the level of risk which the TU Board is prepared to accept in order to support the achievement of TU's Strategy and Objectives, which means it is able to operate effectively in both normal and stressed conditions through targeting an appropriate balance between risk and reward.

The purpose of the Risk Appetite framework is to ensure that:

- Exposure to a number of key risks taken by TU remains within known, acceptable and controlled targets, limits and activities;
- Risk appetite criteria are clearly defined so that actual exposures and activities can be compared to those agreed at TU Board level, allowing monitoring and positive confirmation that risks are controlled, and the TU Board is able and willing to accept the exposures; and
- Risk limits and triggers are linked to the actual risk taking capacity of TU in a transparent and straightforward way.

Risk appetites are managed at TU through the development and completion of Key Risk measures against each Managed Risk, with defined Limits and Triggers; these are updated and monitored every quarter as part of the CRSA process to ensure that TU records against appetite across the entire risk framework.

The Primary Risk Appetite measures form a sub-set of the wider TU KRI measures and have been identified due to their regulatory nature and/or because they are of key interest to the Board. These are reviewed and approved annually by the TU Board and are reported quarterly to the TU BRC - covering the following categories:

- Financial Resilience
- Profit Volatility
- Conduct Risk
- Data Protection Risk
- Operational Resilience Risk

The calibration for the Non-Life Insurance risk stress events is performed using the TU Internal Model. For other risk types (i.e. Market and Counterparty Default) a modified Standard Formula model will be used to calibrate the stress events. The TU stress events are calibrated to a 20% probability over 1 year ('1-in-5' year event), see the following sections for more detail. In addition, stress events calibrated to a 5% probability over 1 year (a '1-in20' year event) are used in the Tesco Bank Risk Appetite reporting.

Financial Resilience - Risk exposures must be limited to ensure that the following measures are within appetite at all times:

- **Solvency Ratio** (Own Funds as % PIM SCR)
- **Risk Consumption Ratio** (1-in-5 Combined Risk shock as % Risk Appetite)
- **Market Risk Consumption Ratio** (1-in-5 year Market Risk shock as % Own Funds)

Profit Volatility - Risk exposures must be limited to ensure that the following measures are within appetite at all times:

- **Combined Risk** (1-in-5 year Combined Risk shock as % Profit Before Tax (PBT))
- **Reserve Risk** (1-in-5 year Reserve Risk shock as % PBT)
- **Premium Risk** (1-in-5 year Premium Risk shock as % PBT)
- **Corporate Bond Default** (the default (50% Loss Given Default) of the most material Corporate Bond holding as % PBT)
- **Reinsurer Default** (the default (50% Loss Given Default) of the most material Reinsurance Asset as % PBT)

Conduct Risk, Data Protection Risk and Operational Resilience Risk - whilst these risks are monitored against appetite via a number of Key Risk Indicators, the nature of these measures are more subjective and qualitative in nature and will evolve as regulatory scrutiny changes:

- **Conduct Risk Appetite Statement**: Everyone in TU works towards providing our customers with a fair and positive journey.
- **Data Protection Risk Appetite:** TU has no appetite for significant regulatory breaches arising from our processing of personal data (in defining significant, TU will take account of the volume of data subjects and types of data involved).
- **Operational Resilience**: TU has a limited appetite for business interruption in excess of the agreed service category Service Level Agreements (SLAs).

B.3.3 Risk management organisation and governance

The Governance Framework is described at B.1.1 above.

B.3.4 Risk management processes

In this section the risk management process is described on an aggregated level. In Chapter C the identification, assessment, management and monitoring of the individual sub risks are detailed.

Risk Monitoring and Reporting

The Control Risk Self-Assessment (CRSA) is the quarterly formal assessment and confirmation of the on-going effectiveness of TU systems and controls which ultimately feeds into the year-end financial statements.

Departmental responsibilities:

- Review and where appropriate update the departmental Risk Register;
- Ensure that each recorded risk includes relevant and up-to-date causes, consequences, impact/likelihood scores and appropriate controls and actions;
- Horizon Scan Register items need to be identified and included in the Risk Register – with a view of when and how severely these risks are likely to impact the business;
- Ensuring that all new Risk Incidents have been promptly identified, with owners, estimated monetary loss and action plans in place;
- Review existing Risk Incidents by monitoring in-force action plans;
- Any policies that are due for review in the period have been updated in line with the review schedule;
    - Adequate evidence that each policy has been fully complied with;
    - Where policy breaches have occurred, what action has been taken; and
    - A summary of the departmental view of the effectiveness of their risk management.
- Ensuring that all accepted risks (those items which are outside TU's agreed appetite) have been updated and reported appropriately;
- All data governance documents are up to date;
- All data protection controls operate effectively with appropriate action plans in place as applicable;

- All data protection impact assessments have been completed where required, and any risks identified have been adequately mitigated;
- All actual or alleged data protection breaches were reported in a timely manner; and
- Adherence to all relevant Business Unit risk policies.

Risk Team responsibilities:

- Provide the business with advice and support on the CRSA process, risk management framework and good practice in identifying, assessing, managing, monitoring and governance of risks and incidents;
- Facilitate the reporting and peer challenge to CRSA at the MRC;
- Complete themed risk reviews and dip checks to ensure key policies are understood, adhered to and effectively monitored; and

.

B.3.5 How we fulfil our obligation to invest all our assets in accordance with the prudent person principle

TU's investment framework clearly sets out the need to act prudently within investment guidelines. This means for investments assessing the safety of capital as well as the income to be derived. The overall investment guidelines for TU are that the investment portfolio is high quality 'A' rated corporate bonds with an overarching 'hold to maturity' strategy guide.

All assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Monitoring of liability durations is maintained to ensure that appropriate asset and liability matching is achieved.

Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, trading sector or group of undertakings.

B.3.6 How we verify the appropriateness of external credit assessments from external credit assessment institutions

If TU is investing in credit, there is always a credit analysis being carried out by a professional asset manager who has the necessary credit analysis capacity, as confirmed by a due diligence process. TU does not rely solely or mechanistically on external credit assessments, and where necessary takes steps to verify the appropriateness of external credit assessments as part of their risk management. Where multiple credit ratings are available then second-best rating is used. Note that ratings used refer to the rating of the issue. Ratings provided by external asset managers may be used in case no rating is available.

B.3.7 Own Risk and Solvency Assessment (ORSA)

Overview

The Own Risk and Solvency Assessment (ORSA) process enables TU to identify, assess, control, monitor, manage and report the risks that it faces (or may face) and to determine the funds the Company needs to ensure that its overall solvency needs are always met.

The annual ORSA report provides TU's Board, ExCo and Senior Management with detailed information on TU's understanding and opinion on the risks the business faces, together with solvency requirements now and in the future. It supports Board members in the discharge of several their responsibilities under the Board's Terms of Reference and ensures decision-making is focused on risk and capital requirements at every level.

The ORSA process demonstrates that TU can afford its business plan with its projected capital resources accounting for the impact of a number of severe but plausible stressed scenarios. This conclusion is based on the following:

- Capital forecasts over the Long Term Plan (LTP) plan period from 2024/25-2027/28 indicate that existing capital projections are sufficient to support delivery of this plan, without recourse to the Shareholder (Tesco Bank) for a further capital injection.
- Selected Stress and Scenario tests covering all key risks have been applied to the LTP figures. These show that following management actions (e.g. suspending future dividends) TU's Solvency Ratio remains above the Regulatory SCR level for all tests undertaken.
- Should circumstances arise in which TU's capital becomes insufficient to support its business plan, action would be taken through the Capital Contingency plan (as part of the Capital Management Policy) which has been agreed with the Board.

Forward looking nature of the assessment

The ORSA assessment of overall solvency needs is forward-looking and covers a medium term or long term perspective as appropriate. For TU, this means by default the Long Term Planning (LTP) period of 3 years and longer when the risks associated to the strategy could be material over a longer horizon. This is documented in the ORSA report.

Requirements for Stress Testing

The strategy assessed in the ORSA is subjected to a sufficient wide range of stress tests including reverse stress tests and scenario analyses in order to provide an adequate basis for the assessment of overall solvency needs. The justification of stress testing programs can be found in the ORSA Report, with an overview of the results and conclusions shown in Section C.6 – these show that following management actions TU remains solvent relative to regulatory PIM SCR under each of the stress tests performed at its minimum level over the projection period.

A key output of the ORSA process is the ORSA report, this is typically produced annually to summarise the key findings from the ORSA process. Based on this report, the Board will decide whether the risk profile, the approved risk appetite framework and the overall solvency needs (and the link between them) are still appropriate for TU. If this cannot be confirmed, the Board may (amongst other possibilities) decide to:

- Change the Own funds (amount or composition) as described in the Capital Management Policy;
- Change the capital allocation as described in the Capital Management Policy;
- Change the risk profile - this can be done by transferring, mitigating risks, or by modifying the strategy (e.g. terminate or reduce the risky activity) and is described in specific risk management policies as well as in the Risk Appetite Policy;
- Adjust the Company's strategy; and
- Resolve other identified deficiencies.

Alignment with other reports & communication to supervisors

The information contained in ORSA reports is consistent with the information found in other reports provided to the Management Risk Committee (MRC), Executive Committee (ExCo), Board Risk Committee, Board Audit Committee (AC) and Board as well as to Supervisors.

Report and Frequency

TU performs an annual ORSA linking it to its strategic MYB exercise. This frequency takes into account TU's risk profile and the volatility of its overall solvency needs relative to its capital position. It must be justified within each ORSA report.

Non-Regular ORSA triggers are also in place to make-sure that own risk solvency assessments are performed if the situation warrants it outside the above regular ORSA process. The following non-exhaustive list of ORSA triggers are used as a reference (taking into consideration the Risk Appetite Framework in force):

- A significant change in the risk profile;
- A significant change in the composition of Own funds or in capital management / budget assumptions and forecasts;
- An acquisition (or divestment) that significantly changes business, risk or solvency profile;
- A significant change to the strategy, affecting budget assumptions in material ways;
- A significant change in the external business environment;
- A significant change in the liability portfolio;
- A significant deviation from the Risk Appetite indicators (solvency, liquidity, earnings); and
- A (significant) change in regulation.

The non-regular ORSA must explain the expected changes in the risk profile and/or financial situation, the impact on the overall solvency needs and the link to the available Own funds and SCR.

Roles and Responsibilities

The TU Board is the owner of the ORSA and responsible for reviewing and approving the assessments and scope, challenges its results and concluding on the outcome. TU's ExCo, together with the Board steer the preparation of TU's ORSA, namely how its assessments have to be performed, defining their scope, challenging their results, concluding on them and ensuring that instructions and follow-up actions are given and effectively implemented.

Operationally, they are assisted to do so by the Risk Function, the Finance and the Actuarial Function.

Additional Monitoring

To verify and assess the level of ORSA follow-up and on the field embedding, TU requires the reporting of ORSA action statuses and follow-up given to previous ORSA. Once the ORSA is validated by the Board it is sent to the PRA.

B.4 Internal control function

B.4.1 Internal control system

TU creates value through the acceptance and management of risks that can be properly managed within an appropriate risk framework. Internal controls are in place across all processes to mitigate risks.

Internal control should strengthen the operating environment of TU, thereby increasing its capability to deal with events and detect possible process failures. Internal controls support the achievement of the Company's strategy by providing one of the methods to mitigate risk. TU ensures there is a clear segregation of duties between business functions to prevent conflicts of interest.

There are also clear escalation and reporting procedures in place, supported by TU's risk governance processes. Breaches of risk appetite, limits and/or tolerances, along with the actions to address the issue, are referred to the relevant governance committee and if necessary, the Management/Board Risk Committee. While risk management is the responsibility of TU's management body, the undertaking is required under Solvency II to designate at least one member of the management body to oversee the risk management system, this being the CRO.

The CRO is responsible for escalating the issue for appropriate oversight, and challenging whether action is inappropriate, insufficient, or ineffective.

The system sets the standards for TU's application of an internal controls framework and defines the procedures to assess the efficiency and effectiveness of the framework, and utilises the following principles:

1. Control owners are responsible for executing controls assigned to them

Control procedures are embedded within TU's business processes. Key controls in place are assigned to an owner. Control owners understand the objective of the control, exercise the control with agreed frequency and ensure appropriateness of the control.

The responsibility of the owner is to ensure that these controls are appropriate and that they have been properly carried out and sufficiently documented.

2. Internal controls need to be adequate and effective

Control owners assess controls assigned to them, for adequacy and effectiveness against a defined testing schedule. For interdependent controls within a process, each control owner understands control linkages and dependencies to ensure end to end process control. An appropriate segregation of duties and responsibilities should be in place, both at the individual level and between functions.

3. TU ensures that incentives are managed by internal controls

TU Risk assesses incentives to identify the potential for inappropriate behaviour. Based on this identification, incentives are removed and, if not possible, reduced through the implementation of internal controls.

4. Proportionality of controls

Controlling all risk is not possible. Internal controls therefore focus on material risks to TU. The frequency of the control activity is appropriate for the nature, size and complexity of the process.

5. Internal controls are documented

Internal controls are designed, approved and documented by the control owner against all key risks in business unit risk registers. To provide assurance to management that the internal control framework in place is adequate and effective, reviews and assessments are performed and documented. Traceability of controls is essential to provide assurance to management and external stakeholders.

6. Outsourcing must be subject to at least equivalent levels of controls
TU relies on external service providers for carrying out various sets of activities. Reliance on external providers does not remove TU's responsibility towards shareholders, policyholders, personnel or other stakeholders. TU has appropriate controls in place and maintains adequate oversight to fulfil these responsibilities.

Three Lines Model

1st Line of Defence - Business Units:	2nd Line of Defence - Risk Management and Compliance:	3rd Line of Defence - Internal Audit:
• Identifying and managing risks in their area of operations • Ongoing assessment and monitoring of risks • Implementation of effective controls to mitigate risks • Control Testing of key controls and testing of others by exception • Complying with Policy in procedure and practice • Ensuring risk aware culture & environment, with trained & capable staff • Providing advice to the business to support risk best practice	• Developing and maintaining risk appetite for Board approval • Establishing a policy framework which supports the risk appetite • Creating risk frameworks and providing tools which help risk owners deliver on their responsibilities • Aggregating and reporting risks at an enterprise level • Promoting good risk management practices throughout the organisation • Independent oversight and challenge of the enterprise risk profile • Independent oversight and challenge of the key business decisions • Provision of support and technical risk advice • Conduct assurance reviews for key risk themes	• Help the Board and Executive Management protect the assets, reputation, and sustainability of the organisation by: ○ assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management ○ assessing whether they are adequately controlled; and ○ challenging Executive Management on the effectiveness of governance, risk management and internal controls.

Operational independence bars the management body from undue influence on key functions in the exercise of their responsibilities. The management body is ultimately responsible for deciding on how to react to the results, concerns and recommendations presented by the key functions. For example, it could resolve not to act or act differently from suggestions on the findings of a key function. However, it may not exert influence to suppress or tone down key function results in order that there is no discrepancy between the findings of key functions and the management body's actions.

Each function shall be able to communicate on its own initiative with any staff member and must have the necessary authority, resources, expertise and unrestricted access to all relevant information necessary to carry out its responsibilities.

B.4.2 Key procedures in our internal control system

The sections below describe the content requirements for the control assessment:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

All five control components are assessed per business function detailing the key processes, risks, controls and actions. During the assessment, the key risks, controls and actions are the most important elements considered. These components are scored according to a predefined scoring table and aggregated into the Risk Register – this is built based on every organisational unit and the processes, risks and controls.

Finally, the actions to be taken to set-up controls and/or improve existing ones are identified and followed-up on throughout the year. Time constraints are defined depending on the rating of the risk.

The internal control framework is based on the self-assessment performed by the respective control owners.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its people. The core of any business is its people (their individual attributes including integrity, ethical values and competence) and the environment in which they operate.

Internal controls are key to prevent operational and other risks before they crystallise into losses, customer detriment or adverse reputational impact by ensuring risks are taken within defined limits.

There is a clear understanding of controls, and objectives which require good understanding of the risks. A balance will be sought between the risks faced and the cost of mitigating these risks. TU's employees will have a clear view on their responsibilities throughout the business processes. A good understanding of their role and of the importance of the controls contributes to the embedding of a risk culture. Management will ensure that the appropriate skill set and competences are developed to support this objective (e.g. training).

All functions in TU will have appropriate training to ensure staff are familiar with their control processes. The training will ensure staff are aware of controls in place and the rationale for the controls.

Risk Assessment

All risks to which TU is exposed must be assessed. The purpose of this component is to identify the key risks faced when carrying out the business activities related to a process/function.

Control Activities

Control activities are defined by the policies and procedures that help ensure that management directives are carried out, and that necessary actions are taken to address risks in the achievement of the entity's objectives.

Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information & Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about the external events, activities and conditions necessary to inform business decision-making and external reporting.

Monitoring

Internal control systems are monitored and assured. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other action personnel take in the performance of their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal control deficiencies are reported upstream, with serious matters reported to top management and the Board.

All key (residual) risks identified during the quarterly interactions with key process owners (first lines) are captured in the Key Risk Reporting Process. The most material elements of this Key Risk Report are then considered for inclusion in the Financial Statements signed-off by the CEO and Finance Director.

B.4.3 Approach to the Compliance function

The Compliance function is an independent function within TU providing reasonable assurance that the Company and its employees comply with the laws, regulations, internal rules and ethical standards that are relevant to the integrity, and hence to the reputation, of TU.

Compliance Mission

The Compliance function is a key player in the establishment of a compliance culture within the Company, and has the following areas of responsibility:

- Ensuring the implementation and execution of the compliance function within TU as defined by the regulatory authorities;
- Ensuring regular updating of legal and regulatory changes;
- Ensuring the translation of the regulatory framework and rules into specific policies and instructions;
- Ensuring monitoring of compliance with these policies and instructions, taking the necessary measures (training, information, sanctions) to reduce potential compliance risks;
- Ensuring adequate reporting both to internal and external stakeholders; and
- Ensuring efficient functioning of the Compliance function throughout TU.

Compliance Scope

The scope is a stable feature, depending largely on the nature and location of business activities. It includes:

- Duty of care, product suitability and adequate information to customers, market practices and consumer protection (“Conduct Risk Framework”);
- Corruption and Anti-Bribery;
- Customer identification, acceptance and follow-up;
- Corporate Governance, Fit & Proper rules, Remuneration Policy and Conflicts of Interest;
- Privacy protection; and

- Fair competition.

Compliance Organisation

Compliance is a permanent, independent second line control function.

The suite of TU Compliance Policies describes the Compliance risks, Objectives and scope of the Compliance function (as an independent second line control function, and the risk-based approach), Strategy and Plans, the structure of Compliance within TU, reporting, relationship with regulators, working with other control functions. The key objectives of the Compliance function are to provide reasonable assurance that the Company and its employees comply with the relevant laws, regulations, internal rules and ethical standards.

TU Compliance has responsibility for implementing the Regulatory and Conduct Risk Policy and plans in accordance with the regulatory risks that impact TU.

TU Compliance provide a quarterly 3+3+6 plan reflecting the compliance strategy and the regulatory risks of the business. The TU Compliance plan is considered by the TU Management Risk Committee and approved by the Board Risk Committee.

A quarterly update of progress against the plan and highlights of Legal and Regulatory Updates are discussed in the TU Management Risk Committee and in the TU Board Risk Committee.

Compliance methodology
In practice Compliance fulfils its mission along a rule-based and risk-based approach.

Rule based approach
The rule-based approach consists of ensuring that the applicable laws, regulations, rules and standards are adequately transposed into clear and precise instructions and procedures, and that first line controls are in place and correctly applied together with the expectation of future changes to laws and regulations.

Risk based approach
The risk-based approach involves identifying and assessing the compliance risks and providing the assurance that every reasonable measure (including instructions, procedures, IT programs, monitoring methods, awareness and training actions, objective setting, incentives, deterrent measures and sanctions) have been taken in order to avoid or reduce the occurrence of the identified compliance risks and to minimise the damage, should one of these risks nevertheless occur. Corrective action is monitored as well.

Starting from a new or updated law or regulation, the Compliance function identifies possible consequences (the inherent risk), weighs the likelihood and impact of occurrence, checks the controls in place and determines the current level-of-concern (the residual risk). It issues specific recommendations and follows up the actions and corrective measures set up by the involved departments, until complete implementation.

In fulfilling its mission, Compliance therefore bears a responsibility for an end result in regard to the adequacy of being-in-control when talking about compliance topics. To this end, the control results of the operational services are used, supplemented by sample testing, preparation and monitoring of compliance risk indicators, interviews, etc.

B.5 Internal audit function

B.5.1 Role and Scope of Internal Audit

The Internal Audit function is responsible for providing independent, objective assurance to the TU Board and Senior Management on the adequacy of the design and operational effectiveness of internal controls and the system of risk management. The Internal Audit function has an independent reporting line to the Chair of the Board Audit Committee and is resourced by individuals with

relevant experience and professional qualifications. In addition, Internal Audit resources are supplemented across a range of audits by external support to provide additional subject matter expertise when required.

Internal Audit operates within the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA) and in accordance with the guidance issued by the IIA for "Effective Internal Audit in the Financial Services Sector".

Independent assessment is provided through the execution of an agreed plan of audits, through attendance at relevant governance committees and through stakeholder management meetings.

The role of the Internal Audit function is defined within an Internal Audit Charter, which forms part of the TU Governance Framework and is subject to annual review and approval by the TU Audit Committee.

B.5.2 The Audit Plan

Internal Audit propose a six monthly 3+3+6 audit plan to the TU Board Audit Committee based on its understanding of the significant potential risks to which the organisation could be exposed. The TU Audit Director makes regular reports to the TU Audit Committee on progress against this plan.

B.6 Actuarial function

The Actuarial function has specific technical expertise and experience in relation to technical provisions and capital. The skills and experience of the actuarial function provide a different perspective from the underwriting or reinsurance teams' perspectives. The Actuarial function's alignment and collaboration with the other control functions – namely Internal Audit, Risk and Compliance – is elaborated in the TU Model Governance policy. Effective cooperation between these governance functions is fostered in order to avoid overlaps and omissions in roles and responsibilities.

The Actuarial function is critical to the assessment of TU's technical provisions and solvency capital requirements with oversight by the risk function. The key role of the Actuarial Function in the context of SII is to issue Actuarial Function opinions (hereafter the Opinions) and to formulate recommendations for improvement on:

- The reliability and adequacy **of technical provisions** in Solvency II by assessing methodologies, models, data quality and assumptions, and the consistent calculation of technical provision calculations;
- The appropriateness of **underwriting** practices when offering insurance products through assessment of the profitability of the portfolio, product pricing (risk/return) and acceptation rules, and benchmarking these to the applicable underwriting policy; and
- The appropriateness of the **reinsurance** arrangements by assessing the adequacy of the reinsurance policy and the alignment of the reinsurance arrangements with the applicable reinsurance policy.

Actuarial Function Report timing

The TU Actuarial Function Report is provided yearly to the TU Board.

Recommendations and their follow-up

When weaknesses are reported, recommendations to mitigate the risks need to be added. All recommendations need to receive a "level of concern" score (HML), an action owner and a realistic target date. The level of concern reflects the potential impact of the identified risk.

The Actuarial Function will assure timely follow-up of the open recommendations and report on these. The recommendations and their characteristics will be approved by relevant senior management committees.

B.7 Outsourcing

TU will only enter into an outsourced arrangement where there is an agreed sound business rationale for doing so and with a provider that is competent (i.e. has the required operational and technical capability, resources and quality standards), is financially sound and has good relevant knowledge and experience of the service it is required to supply.

Outsourcing occurs when TU appoints a third party to provide a core business activity, process, service, goods or facilities which would otherwise be undertaken by the Company itself.

Any decision to outsource activities remains the responsibility of TU management, based upon the agreed strategy. Decisions and core management responsibilities concerning strategy or risk management will not be outsourced.

Oversight of outsourcing is undertaken by a specialist team with management governance through the Claims Director, Finance Director, and the Outsourced Services Committee. The Outsourcing and Third Party Supplier Policy and Outsourcing and Supply Chain Management Framework sets out the requirements for any activities which are outsourced and applies wherever Tesco Underwriting appoints a third party (either independent or intra group) for the supply of services which are integral to its main business activities.

TU has entered into service level agreements on the provision of the following services by Tesco Bank:

- Human Resources, Legal, Secretariat, Compliance
- Information technology and Change, Information Security and Operational Resilience
- Claims Cashiers and Fulfillment
- Other supporting services

The TU Outsourcing team provide assurance and oversight on all outsourced or contracted services, ensuring strong relationship management is in place and appropriate measures of supplier performance are adhered to in line with contractual obligations. These are monitored via the Outsourced Services Committee and TU Board.

TU remains responsible for all activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection, management and oversight of all outsourced arrangements. A strong level of governance is applied to services outsourced to both Tesco Bank and third parties.

TU ensures that outsourcing of critical or important operational functions or activities will not:

- Unduly increase operational risk; or
- Breach applicable legal or regulatory requirements; or
- Materially impair the quality of the system of governance or the ability of its regulators to monitor TU's compliance with its obligations; or undermine continuous and satisfactory service to policyholders.

Oversight arrangements include satisfactory due diligence, robust contractual documentation, allocated business responsibility for oversight of the relationship and performance, supported by appropriate Compliance and Internal Audit monitoring. This information is brought together at the Outsourced Services Committee and TU Board and reviewed in order to ensure appropriate control is being maintained. Areas monitored include key suppliers, owner of the relationship within TU, the term, notice and the contract value.

B.8 Any other information

There is no other material information to disclose.

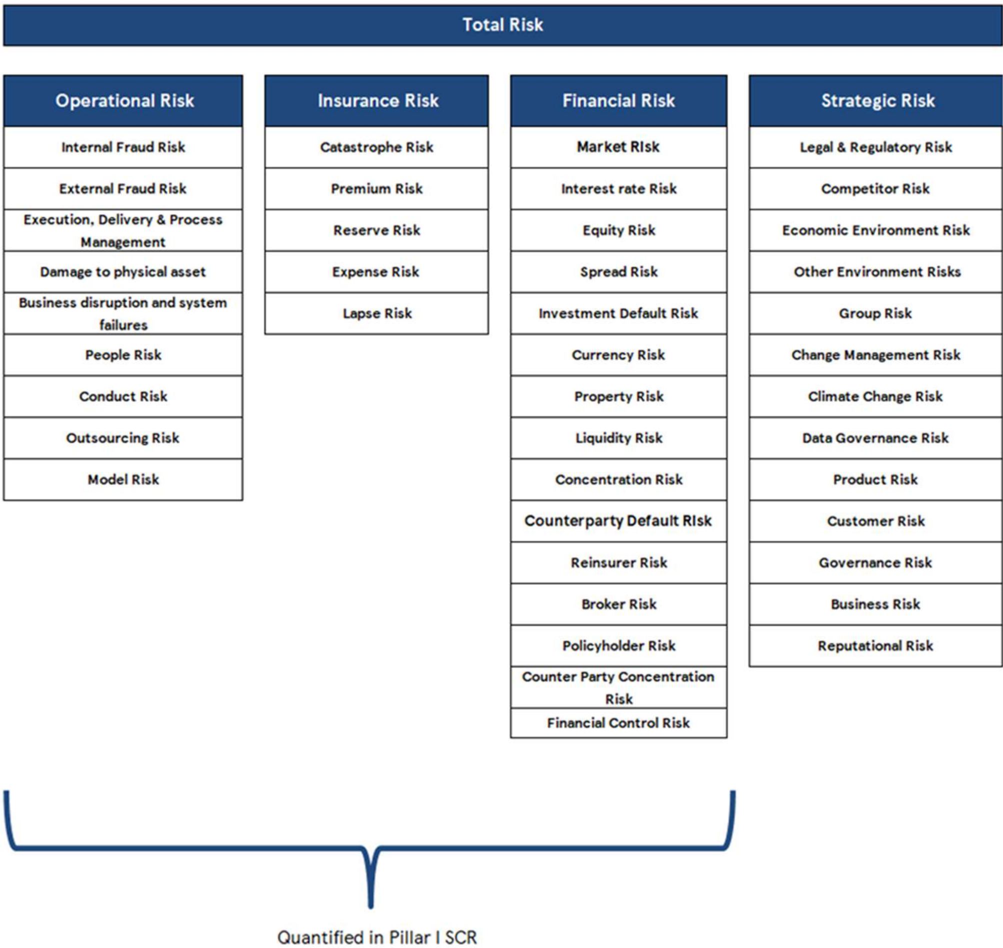
C

RISK PROFILE (unaudited)

The Company's primary activity, the acceptance of risk of loss from individuals taking out personal Motor or Home insurance policies, exposes it to a number of risks which may adversely affect the Company's ability to meet its business objectives.

TU is exposed to a wide range of risks, which are categorised in the Risk Taxonomy Policy, and which ensures that a consistent and comprehensive approach to risk identification, assessment, monitoring, and response is in place.

The diagram below shows the TU Risk Taxonomy:



TU has chosen to adopt a Partial Internal Model (PIM), with Insurance Risk (TU's most material risk) being modelled using an Internal Model (IM), and all other risk types being modelled using the Standard Formula (SF). In 2020 TU applied for a solo PIM in anticipation of Tesco Bank acquiring Ageas' stake of TU and this was approved in December 2020 with no associated terms and conditions.

Risks that are not covered under the PIM SCR are considered under Pillar 2, these are outlined in the ORSA report and briefly described below:

- To-Ultimate volatility: the PIM SCR reflects a one-year view of risk against 1 in 200 year events; this does not allow for potential adverse movement / volatility that may arise after one year (full run-off of the exposure).
- Strategic Risks: the risks within the TU Strategic Risk register are cross-checked to ensure that there is sufficient allowance within other modelled risk types (due to overlap between the definitions)

The composition of the Solvency II capital solvency requirements is shown in Section E.2 - the following sections explain TU's various risk exposures in more detail.

	2024	2023
Market Risk	45,876	34,928
Counterparty Default Risk	14,930	11,983
Non-Life Underwriting Risk	87,713	95,999
Diversification between above mentioned risks	(31,536)	(26,224)
Non-Diversifiable Risks	23,762	14,642
Loss-Absorption through Deferred Taxes (see below)	0	(8,516)
Required Capital under PIM SCR	**140,745**	**122,811**
Impact of Non-Life Internal Model on Non-Life Underwriting Risk	14,357	3,069
Impact of Non-Life Internal Model on Life Underwriting Risk	534	261
Impact of Non-Life Internal Model on Counterparty Default Risk	301	273
Impact of Non-Life Internal Model on Diversification between risks	(2,961)	(500)
Capital Solvency Requirements under the SII Standard Formula	**152,977**	**125,913**

Available Capital of £223.0m at 29th February 2024 (2023: £195.2m) represents 158.4% (2023: 159.0%) coverage of SCR PIM.

Within the PIM SCR, TU accounts for £13.3m in respect of the loss absorbing capacity of deferred taxes (2023: £8.5m). In 2024, this figure has been calculated within the PIM underwriting risk module by applying the average tax rate to modelled profitable scenarios and is presented within "Non-Life Underwriting Risk" in the above table. In contrast, the 2023 figure was calculated the same way as the Standard Formula, i.e. taking into account a prudent view of the expected profit (pre-tax) over the next 12 months, multiplied by the average tax rate over the coming 12 months.

TU's PIM covers the entirety of TU's business in respect of Non-Life underwriting risk. The main sub-components of the model are Premium Risk and Reserve Risk. Within Premium Risk and Reserve Risk there are separate components for TU's lines of business and different claim types. For the purpose of the SCR, it is calibrated to assess the risk at the 99.5th percentile over a one-year time horizon. Market risk, counterparty default risk and operational risk are calculated using the Solvency II Standard Formula. Within the standard formula no simplifications are used and no Undertaking Specific Parameters (USPs) are used.

Outside of the setting of the SCR, TU's PIM is used for capital allocation, which feeds into pricing, for reinsurance purchases and reinsurance optimisation, as a tool to support the ORSA and to support investment modelling with a view to matching assets and liabilities and assessing the risk/return trade-off.

The PIM uses a variety of methods and assumptions in generating an overall probability distribution forecast. The model is composed of a number of components, which are appropriate for modelling variability by line of business for premium and reserve risk. For example, within reserve risk, historic reserve variability, combined with bespoke large loss modelling and TU's reinsurance arrangements are used together. Within premium risk, allowance is made for variability of attritional claims using TU's own data with overlays to include natural catastrophes, man-made catastrophes and variability of individual large

losses where the frequency and severity are modelled. A matrix structure is used to aggregate the components using correlations determined by experts in the business, with reference to the standard formula.

The SCR has increased by £18m over the year primarily as a result of growth in business volumes including an increase in the catastrophe exposure in non-life underwriting risk.

The Standard Formula SCR is higher than the Internal Model SCR for Non-Life Underwriting Risk by £12.2m at 29th February 2024 (28th February 2023: £3.1m). The main reason for this increase in surplus is the recognition of part of insurance profit within the SCR.

The Minimum Capital Requirement (MCR) at 29th February 2024 is £56.3m (28th February 2023: £40.4m). The MCR has been calculated using the outputs from the SCR PIM, premiums and technical provisions.

C.1 Insurance risk

Risk description
The risk of loss or of adverse change in the value of insurance liabilities, due to changes to the underlying assumptions on which pricing and claims estimations have been made.
This is the predominant risk to which TU is exposed to – and is comprised of the following sub-risks:

- **Catastrophe Risk** – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events and their unpredictable timing.
- **Premium Risk** – the risk that, in the coming year, claims severity or frequency differs from expectation.
- **Reserve Risk** - the risk that the cost of settling prior period claims costs differ from expectation.
- **Expense Risk** - the risk of losses arising from the value of expenses required to settle insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
- **Lapse / Persistency Risk** – the risk of losses arising from changes in the level of or volatility in the rate of policy lapses.

Risk mitigation
TU manages insurance risks through a combination of its Pricing and Underwriting policy, Reserving policy and Reinsurance policy. 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 business plans.

Premium Risk

TU recognises the risk associated with underwriting poor quality business in terms of the potential impact on profitability and solvency and indirectly on the prices we are able to offer to other risks.

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. In recent years, the insurance market in general has experienced an increase in the frequency and value of third party injury claims, and in the value of third party property damage claims, arising mainly in the private car market.

These increases have been driven by an increased propensity for the population to be litigious and the extensive activities of companies actively persuading potential victims to instigate claims. In addition, the growth in credit hire has had a significant impact and the Ogden discount rate change from 2017 has also increased costs. The latest Office for Budget Responsibility (OBR) outlook report forecasts CPI inflation to fall to an average of 2.2% in 2024 and 1.5% in 2025 before gradually returning to the 2% target. Bank Interest rates are expected to fall from the current peak of 5.25% to 4.2% at the end of 2024. GDP grew by 0.1% in 2023 and is expected to increase to 0.8% growth in 2024. The Company is aware of these trends and monitors developments closely, adjusting the prices of its products accordingly, to meet its required return on capital.

Reserve Risk

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.

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) e.g. Legal, Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) the changes in the Ogden discount rate for valuation of large bodily injury losses (February 2017 and July 2019) and the impact of Covid-19 (2020);
- 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 related calculation is carried out to estimate the size of reinsurance recoveries. The Company is covered by a variety of excess of loss reinsurance programmes, as well as a quota share reinsurance and adverse development cover. The methods used by the Company take account of historic data, specific details for individual large claims and details of the reinsurance programmes, to assess the expected size of reinsurance recoveries in a range of alternative scenarios.

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.

Reinsurance Risk

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 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. In addition, the Company has renewed a Motor Adverse Development Cover (ADC) for 2023 and has a structured quota share (QS) covering 45% of Motor new business for 2021 to 2024.

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 brokers, and is approved by the Reinsurance Committee and the Board. The failure of a reinsurer to pay a valid claim is categorised as Counterparty Default risk.

Expense Risk

This is managed through regular meetings between Finance and cost centre owners across the business, ensuring that costs are monitored against budgeted spend and any accruals held are still appropriate.

Measures used to assess risk

The management of Non-life risk at TU includes, amongst other things, risk acceptance rules, claims management guidance on claim assessment, reinsurance taking activity and management.

The key Underwriting risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Premium, Reserve, Reinsurance and Expense risk are all explicitly modelled within TU's Risk Profile and are captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process.

Risks are managed through a combination of policies, processes and reports. The key policies are as follows:

- Product Approval Policy;
- Reinsurance Policy;
- Reserving Policy;

- Pricing and Underwriting Policy
- Fraud Policy
- Claims Management Policy

Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Insurance Risks (Weather events, Under-reserving, Under-pricing), Market Risks, Legislative change and Non-placement of Reinsurance scenarios.

Risk concentration
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. 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 from 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. Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Company models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.

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.

Material changes over the reporting period
There have been no material changes.

C.2 Market risk

Risk description
Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This is the second most significant risk to which TU is exposed to – and is comprised of the following sub-risks:

- **Liquidity Risk** – is the risk that expected and unexpected cash demands of policyholders, and other contract holders cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption.
  The liquidity risk also covers the risk that any assumed liquidity premium, used to valuing illiquid liabilities, does not materialise.
- **Concentration Risk** - this covers exposure to concentration risk arising from all types of market risk including interest rate, equity, spread, property, and liquidity risks. Like counterparty concentration risk covered under Counter Party risk, it can arise due to high exposure to single companies or an aggregate of exposures to a number of positively correlated companies for example within one sector or region.
- **Interest Rate Risk** - this risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures.

- **Equity Risk** – this risk arises from the level or volatility of market prices for equities or their yield. Note that the current TU investment guidelines prohibit equity investment.
- **Spread Risk (**Non-Fundamental) – this relates to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over risk-free interest rates.
- **Investment Default Risk** – this risk includes the Risk of actual default, rather than spread changes alone. This risk may be covered by the Spread risk category but is included for completeness and to ensure companies consider if and how the impact of actual defaults may differ from spread changes.
- **Currency Risk** – this risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities. Note that TU invests in sterling denominated assets but could be exposed to immaterial direct exchange rate risk e.g. through claims arising abroad or indirect currency exchange risk.
- **Property Risk** – this risk arises as a result of sensitivity of assets, liabilities and financial investments to the level or volatility of market prices of property or their yield.

Risk mitigation

Management of Market Risk is built around these key elements:

- Setting risk constraints (related to Risk Appetite and other risk controls).
- Carrying out strategic asset mix studies to determine the optimum investment strategy and limits taking into account the risk constraints.
- Taking action to avoid actual exposure exceeding the limits.
- Taking action in response to developments in economies and markets – i.e. adjusting the investment strategy and limits if needed.
- Investments shall be made with judgement and care. This means only for investment, considering the probable safety of capital as well as the probable income to be derived. See Section B3.5 for more detail on the prudent person principle.
- Governance - TU has a clear definition of duties in the end-to-end investment process.
- A clear segregation needs to be made between setting the strategy, executing the strategy and day-to-day operations and control.

Measures used to assess risk

Liquidity risk is explicitly modelled within TU's Risk Profile and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process. Risks are managed through a combination of policies, processes and reports - the key policy is the Market Risk Policy.

Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Market Risk which include Economic Downturn, Interest Rate shock and Credit Spread scenarios.

Risk concentration

Diversification is an essential element to minimise concentration risk and therefore concentration limits are identified, approved and strictly obeyed. This implies not only boundaries but also early warning limits so that action can be taken in a timely fashion to avoid breaching the concentration limits. These are clearly specified in the TU Market Risk Policy and monitored in the TU Investment Committee.

Material changes over the reporting period

There have been no material changes.

C.3 Credit risk

Risk description

Credit (Counterparty default) risk reflects possible losses due to unexpected default of counterparties and debtors.
The nature of TU's business model means this is a relatively insignificant risk – and is comprised of the following sub-risks:

- **Reinsurer Risk - This refers to the risk that a Reinsurer on one of our programmes is unable to meet its liabilities when they fall due.**
- **Broker Risk - This refers to the risk that a distributor is unable to pay premiums due.**
- **Policyholder Risk - This refers to the risk that customers default on premiums due.**

Risk mitigation

In accordance with the Solvency II requirements, for counterparty default a distinction is made between two types of exposure: type 1 and type 2 exposures:

- Type 1 exposure covers exposures which are less diversifiable and where the counterparty is likely to be rated by a credit rating agency.
- Type 2 exposure represents counterparties that are likely to be unrated but that can usually be diversified.

Reinsurance contracts - With respect to reinsurance contracts, absolute exposure limits are reviewed per contract and reinsurer. Deterioration of the credit standing of a reinsurer can be the trigger for taking action, for example requiring additional guarantees or decrease in reinsurance share.

Receivables from intermediaries - Outstanding amounts due from intermediaries that are above a materiality threshold are monitored on a quarterly basis. Special escalation mechanisms are put in place in case of late payments.

Cash at banks & custody - For the main business bank accounts (with HSBC) no specific limits are in place. TU operates four Liquidity funds in which there is typically up to £25m of cash. This holding is diversified across the funds with each AAA rated fund manager spreading the risk across multiple underlying funds.

Measures used to assess risk

The key Credit risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Credit risk is explicitly modelled within TU's Risk Profile and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process.

Risks are managed through a combination of policies, processes and reports - the key policy is the Counterparty Default Risk Policy. Counterparty default risks and limits relating to investments operation are monitored and reported monthly to the Investment Committee.
Section C.6 includes further detail on the ORSA Stress & Scenario tests related to Credit Risk which include Reinsurer default scenarios.

Risk concentration

Tesco Bank is our only significant counterparty exposure outside of reinsurance and investment and outstanding balances are reconciled on a weekly basis. Reinsurance counterparty exposure is monitored quarterly through the Reinsurance committee.

Material changes over the reporting period

There have been no material changes.

C.4 Operational risk

Risk description
Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. This is the third most significant risk to which TU is exposed to – and is comprised of the following sub-risks:

- Internal Fraud **– this is the risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves at least one internal party.**
- External Fraud **– this is the risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party without the assistance of an internal party.**
- Execution, Delivery & Process Management **- this risk refers to losses arising from:**
    - Failed transaction processing or process management, including the inability to deliver and execute according to budget and/or strategic plan due to shortage of staff or supplies.
    - Losses arising from the intended misuse of IT-applications, through e.g. misappropriation of access; and
    - Losses arising from disruption of infrastructure or system failures. Note that losses due to not having suitable IT strategy are covered under strategic risks.
- Damage to Physical Assets – this risk refers to losses arising from:
    - Acts of malice, spite, terrorism or the like where there is no profit intention; and
    - Losses arising from loss of, or damage to assets (physical or people) from natural disaster or other events.
- Business Disruption and System Failures **- this risk refers to losses arising from:**
    - The lack of, or inadequate business continuity plans;
    - The inappropriate or inadequate implementation of business continuity plans;
    - Losses arising from loss or damage to assets (physical or people) from natural disaster or other events.
- People Risk **– this is the risk of losses arising from :**
    - Lack of people skills and or / resources;
    - Inappropriate behaviour by senior management;
    - Unexpected absence of key personnel; and
    - Ill health, accident or injury to people.
- Conduct Risk **– this is the risk of losses from unfair outcomes to customers arising from:**
    - Failure to deal with customers fairly and treat them with respect, including handling of complaints;
    - Failing to design our products and services to meet the needs of customers;
    - Failure of products and/or services performing as expected;
    - Inadequately keeping customer data safe.
    - The conduct of business risk to which Tesco Underwriting is exposed falls predominantly to our distributor Tesco Bank. However, Tesco Underwriting has a responsibility to ensure that Tesco Bank is compliant with the regulation.
- Outsourcing Risk **– this is the risk of loss arising from the reliance on or, failure of an outsourcer to:**
    - Exercise control over major processes, key operations, functions and knowledge that are critical to TU's business;
    - Failure of the outsourcer to comply with TU's Risk Policies; and
    - Failure of the outsourcer to 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.
- Model Risk **- the risk of potential adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and strategic decision-making, or damage to Tesco Underwriting reputation. Models by their nature are approximations of reality, and real-world events may prove those approximations inappropriate.**

Risk mitigation

The operational risk management framework aims at identifying, assessing, managing, monitoring and reporting on operational risks. These company-wide processes are:

- Loss data collection;
- Internal control assessment; and
- Key risk identification and assessment process.

Through its Risk Taxonomy TU has classified its potential sources of operational risks and aims to keep these operational risks at appropriate levels by maintaining sound and well-controlled environments in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks they can never completely eliminate them.

Measures used to assess risk

The key Operational risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Operational risk is explicitly modelled within TU's Risk Profile and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process. Risks are managed through a combination of policies, processes and reports. The key policies are the Risk Framework Policy.

The TU ORSA contains further detail on the methodology to calculate the "economic cost" of Operational Risk, in order to determine whether the standard formula-based capital charge allocation for operational risk provides an adequate reflection of the Operational Risk profile. Scenarios are chosen to cover all Operational Risk sub-risks within the TU Risk Taxonomy and each scenario is assessed against the Standard Formula SCR for Operational Risk - the results show that there are no scenarios that indicate that a higher level of capital might be required and therefore the scenarios support the use of Standard Formula for TU.

Risk concentration

Concentration of operational risk is limited within TU.

Material changes over the reporting period

There have been no material changes.

C.5 Other material risks

Strategic Risk description - Strategic risks cover external and internal factors that can impact TU's ability to meet its current business plan as well as how it positions itself to achieve ongoing growth and value creation and is comprised of the following sub-risks:

- **Legal & Regulatory Risk** - this is the risk that changes to regulations would threaten the current business model.
- **Competitor Risk** – this arises due to changes in competitor landscape or market position.
- **Distribution Risk** – this is the risk of a loss due to distribution plans deviating adversely from expectations. This type of strategic risk is particularly applicable due to the exclusive arrangement that TU has with Tesco Bank for the distribution of home and motor insurance. Distribution risk can arise due to a number of causes including lack of alignment of planning, poor stakeholder management, and misaligned strategic goals.
- **Economic Environment Risk** – this is the risk that the economic environment encounters changes and the impact this can have on general business environment, customer behaviour, etc. (e.g. the impact of an economic downturn leading to greater incidence of customer fraud at either sales or claims stage).

- **Other Environment Risks** – these risks cover a range of changes to the external environment not already covered by the categories above.
- **Group Risks** - these cover various risks associated with TU's Parent Company including change in their strategy, significant reputational damage to the Parent Company, and failure of the Parent Company.
- **Change Management Risk** - Chance Management Risk is the risk arising from change projects that fail to deliver on objectives, do not deliver on time or budget, or have an unacceptable 'knock-on' impact on business-as-usual activity.
- **Climate Change Risk** - Climate Change Risk can arise from:
  - Physical risks: the risks which arise from weather-related events, such as floods and storms.
  - Transition risks: the financial risks which could arise for Tesco Underwriting from the transition to a lower-carbon economy.
  - Liability risks: risks that could arise for Tesco Underwriting from parties who have suffered loss and damage from climate change, and then seek to recover losses from others who they believe may have been responsible.
- **Data Governance** - The risk that any data used within TU is of poor quality, leading to inappropriate outcomes. This includes data received from external parties, saved, and transformed within our own systems and utilised for decision making.

Strategic Risk Management

As part of the CRSA process, TU maintains a Strategic Risk register - which is owned by the CEO and reviewed on a quarterly basis with the CRO and Finance Director. This covers the risks that don't sit within any of the other departmental Risk Registers.

As mentioned in the Section C introduction the TU SCR does not explicitly cover Strategic Risks – to justify this we looked at the risks within the TU Strategic Risk register and ensured that there is sufficient allowance within other modelled risk types (due to overlap between the definitions).

C.6 Any Other Information

Stress and Scenario Testing

A well designed and executed Stress and Scenario Testing (SST) programme is part of TU's Contingency Planning. The ongoing Solvency of TU is key – but the analysis also focuses all applicable Risk Appetite measures. Where a Risk Appetite limit is breached management need to consider options available to recover and specify timescales and relevant owners for each action.

The following process was adopted in developing the Stress and Scenario Tests:

- Risk Management liaised with relevant SMEs from across the business to review the SSTs using input from internal and external sources to assess whether there were any potential gaps in coverage against TU's Key Risks.
- The draft SSTs were presented to the TU BRC in October 2023 for discussion and feedback, and the final SSTs were presented to the TU BRC in April 2024.

The following sections summarise the various tests undertaken; the tests have been selected to ensure appropriate coverage of TU's key risks underlying the business plan projections. The tables below show a description of the test, the rationale for the test and an assessed return period.

Insurance Risk Stress and Scenario Tests:

#	Test Name *(Return Period)*	Description	Rationale
S1	Motor Soft Market *(1-in-5 Year)*	TU's market competitiveness worsens more than anticipated leading to a reduction in Policies in Force of 20% vs. Long Term Plan over 2024/25-2026/27.	To assess the impact of lower profitability from writing lower than expected volumes.
S2	Motor Hard Market *(1-in-5 Year)*	TU's market competitiveness improves more than anticipated leading to a growth in Policies in Force of 20% vs. Long Term Plan over 2024/25-2026/27.	To assess the new business capital strain from writing higher than expected volumes.
S3	Multiple Weather Events *(1-in-100 Year)*	A number of events occurring recurrently over 2024/25-2026/27 (2 in 2024/25; 3 in 2025/26; and 4 in 2026/27) as a result of increasingly aggravating climate change. Each event's cost is at the reinsurance retention so no recoveries are made.	TU's Catastrophe reinsurance covers up to a 1-in-200 return period. Analysis of the Non-Life Internal Model shows that multiple smaller events drive the Natural Catastrophe SCR figure.
S4	PPO Severity shock *(1-in-30 Year)*	Assume all TU PPO claimants have unimpaired life expectancy and reserves increase to reflect. A knock-on impact is that this element of the premium is too low and hence the 2024/25 Loss Ratio is 3% higher than Plan. The cost of living crisis/high inflationary environment leads to an increase of 5% in the ASHE index (care cost inflation) for 2024/25.	A key assumption in the calculation of the Claims Reserves.
S5	Adverse Large Loss experience *(1-in-30 Year)*	2023/24 Year-end Bodily Injury (BI) large loss reserves are insufficient by 20% (Claims Handler Estimates are incorrect leading to adverse run-off). The knock-on impact is that the BI Large loss component of the risk premium is too low and hence the 2024/25 Written Loss Ratio is 3.5% higher than Plan.	A key assumption in the calculation of the Claims Reserves.
S6	Non-Renewal of ADC and Quota Share Reinsurance *(1-in-10 Year)*	Significant reserve deterioration leads to a claim on the ADC contract, this leads to an increase in the ADC and Quota Share costs and TU make the decision not to renew the covers on 1/1/2025.	Non-renewal of the reinsurance covers (particularly the ADC) would lead to a significant increase in the SCR figure.
S7	Ogden Discount Rate change *(1-in-10 Year)*	The high inflationary environment leads to an increased outlook for care cost inflation and external pressure for an early review of Ogden Discount Rate, which leads to it being reduced to -2% in July 2024.	A key driver of the cost of Bodily Injury Claims – the change would impact all open claims.

Financial Risk Stress and Scenario Tests:

#	Test Name (Return Period)	Description	Rationale
S8	Sudden rise in UK Interest Rates *(1-in-20 Year)*	Significant increases to UK Interest rates to counter the high inflation, rising to 8% in 2024/25, before falling to 6% in 2025/26 and 4.5% in 2026/27 and then returning to current forward rates.	Rising yields would lead to a reduction in TU's bond portfolio valuation.
S9	Flattening of yield Curve *(1-in-30 Year)*	The impact of a surge in bond yields (Based on the 2013 'Taper Tantrum - the impact of the US Federal Reserve turning off one of their Quantitative Easing programs).	Rising yields would lead to a reduction in TU's bond portfolio valuation.
S10	Widening of Credit Spreads *(1-in-100 Year)*	The impact of the spread widening following the Lehman Collapse in September 2008.	Widening spreads would lead to a reduction in TU's bond portfolio valuation.
S11	Financial Combined Scenario: Downgrade & Default of Investments and Reinsurer default. *(1-in-50 Year)*	A significant economic downturn leads to all BBB-rated corporate bonds being downgraded by 1 whole credit grade notch, and the default of TU's largest corporate bond holding with a 50% loss. This leads to financial difficulties for a number of TU's lowest rated Motor Reinsurance counterparties (below AA rated) and TU is forced to write-off 50% of the Motor Reinsurance Recoveries due from these.	Reflecting the significant impact the cost of living crisis/high inflation could have on the macro-economic environment. Profit impact from Reinsurance Asset write-off and Corporate bond default, and Solvency impact of increased Spread Risk following downgrades.
S12	Deterioration in the economic environment *(1-in-100 Year)*	A parallel downward shift in risk free interest rates of 100 bps; a widening in corporate bond spreads dependent on their current credit rating (e.g. 150 bps for AAA rated assets); and a fall in other asset values (including equities down 30%, commercial property down 40% and residential property down 30%). (Based on 2019 PRA General Insurance Stress Test 1).	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.

Combined Risk Stress and Scenario Tests:

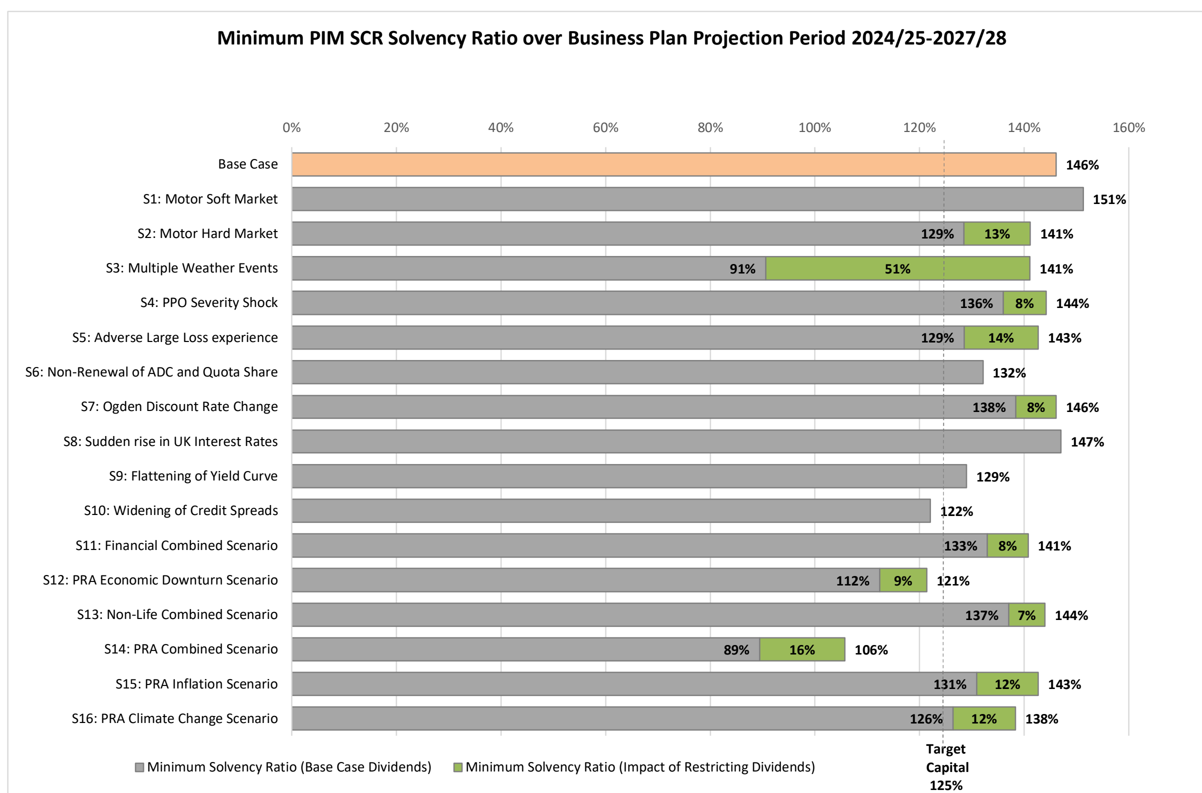
#	Test Name (Return Period)	Description	Rationale
S13	Non-Life Combined Scenario: PPO 'Frequency' increase, Reinsurer default and	New legislation means that all open Large Motor claims over £1m will settle as PPOs. This in conjunction with other significant recent world-wide Natural Catastrophe events causes Swiss Re (TU's largest Reinsurance Counterparty) experience financial issues and	PPO settlement propensity rate is a key assumption in the calculation of the Claims Reserves.

	Reduction in UK Motor Reinsurance capacity *(1-in-100 Year)*	TU is forced to write-off 50% of the Motor Reinsurance Recoveries due. A number of Reinsurers stop providing cover for the UK Motor market due to fears over spiralling numbers of PPO claims – TU is only able/willing to pay for 50% of the £5m xs. £5m XOL layer to be placed in 2024/25 and 75% in 2025/26 before returning to 100% in 2026/27.	Non-renewal of the reinsurance covers would lead to an increase in the SCR figure.
S14	Natural Catastrophe shock and deterioration in the economic environment *(1-in-500 Year)*	A large UK windstorm and a large UK flood leading to some £22 billion of losses in aggregate to the UK insurance sector in conjunction with a deterioration in the economic environment (as per S12) (Based on 2019 PRA General Insurance Stress Test 5)	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.
S15	Liability shock *(1-in-50 Year)*	A deterioration in Technical Provisions due to claims cost inflation being higher than allowed for in the reserving basis (7% above that already allowed for 5 years – 2022/23-2026/27) (Based on the 2022 PRA Dear Chief Actuary Letter – Inflation Scenario 2)	Consistent with the PRA Inflation Scenario referenced in the 2022 Dear Chief Actuary letter.
S16	Climate Change Scenario *(1-in-100 Year)*	A climate change scenario across physical, transition and liability risks that are material to risk profile of Tesco underwriting. (Based on 2019 PRA Stress Test - Climate Change Scenario B)	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission. To support TU's alignment with the PRA Biennial Exploratory Scenario (BES) 2021 regulatory requirements.

Financial Resilience Risk Appetite:

The graph below shows the impact of the SSTs on TU's Solvency Ratio (relative to PIM SCR):

- The **grey bars** represent the minimum Solvency Ratio over the business plan projection period (2024/25-2027/28) assuming no additional management actions are initiated.
- The **green bars** show the impact on the minimum Solvency Ratio over the business plan projection period through the suspension of dividends (this assumes the 2024 dividend of £20m has been paid so the management actions only apply to the 2025 and 2026 dividends).



The Solvency impacts of the following tests are reduced by TU's Reinsurance covers:

- Home Catastrophe XOL: **S3 (Multiple Weather Events)**, **S14 (PRA Combined Scenario)** and **S16 (Climate Change Scenario)**.
- Motor XOL: **S5 (Adverse Large Loss Experience)**, **S13 (Non-Life Combined Scenario)** and **S15 (PRA Liability Shock Scenario)**.
- Adverse Development Cover (ADC): **S13 (Non-Life Combined Scenario)** and **S15 (PRA Liability Shock Scenario)**.

The results before management actions (grey bars) show that TU remains solvent (relative to regulatory PIM SCR) under each of the stress tests performed, except for test **S14 (PRA Combined Scenario)** which results in a minimum Solvency Ratio of 89% PIM SCR.

The key management action is to suspend the future dividend payments - for example under test **S14 (PRA Combined Scenario)** this increases the minimum Solvency Ratio by 16% (from 89% to 106%). The Stress and Scenario tests undertaken demonstrate that there are none that are significant enough to breach the regulatory PIM SCR level after management actions.

Reverse stress testing indicates that based on the 2023/24 Q4 reported solvency position the likelihood of TU breaching its PIM SCR is approximately 1-in-50.

Financial Risk of Climate Change

Climate change is a long-term risk and TU's key priorities reflect a proportionate balance between meeting regulatory expectations for UK GI firms (evidence of realistic targets and action plans) and 'Greenwashing' risk (over-promising and under-delivering). Key actions taken include:

- Investment guidelines – agreed rule-based ESG exclusion criteria and metrics.

- Climate Change Risk Appetite Statement (aligned with Tesco plc and Tesco Bank).
- Key Risk Indicator (KRI) measures covering: Investment Portfolio ESG rating/carbon emissions, Pricing & Underwriting exposure, Claims sustainable repairs, Considerations in supplier decisioning and Reputational risk.

The key priorities for 2024 are data gathering and agreeing limits and triggers for the climate change KRI measures. Going forward TU's climate change agenda will link in closely with the wider Tesco Group purpose which focuses on planet.

The SSTs undertaken confirm that for TU Physical Risks are the most significant (noting that these are mitigated by the reinsurance programme) and Transition Risks are less so (due to the investment portfolio being a diversified mix of high-grade corporate bonds).

D

VALUATION FOR SOLVENCY PURPOSE

This chapter should be read in conjunction with the Solvency II balance sheet (SII BS) as reported in the Quantitative Reporting Template S.02.01.

This section provides the value separately for each material class of assets, technical provisions and other liabilities; and a description of the bases, methods and main assumptions used for their valuation for solvency purposes. It also provides a quantitative and qualitative explanation of any material differences.

D.1 Assets

The following adjustments have been made to the Statutory Accounts in arriving at the SII Balance Sheet;

- Deferred acquisition costs and other intangibles are excluded from the SII balance sheet as there is no fair value for these items;
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments; and
- Premium provisions (assets for remaining coverage) are discounted cash flows for SII balance sheet valuation purposes.

The Company held the following assets:

Assets at 29 February 2024 £'000

	IFRS Accounts	SII Adjustments	SII Balance Sheet
Assets			
Other intangible assets	9,025	(9,025)	-
Deferred tax assets	6,781	672	7,453
Property, plant & equipment held for own use	1,603	0	1,603
Investments - Bonds	681,628	0	681,628
Investments - Property Funds	16,696	0	16,696
Reinsurance recoverables	100,570	113,744	214,315
Insurance & intermediaries receivables	0	18,952	18,952
Reinsurance Receivable	0	11,390	11,390
Cash and cash equivalents	53,367	-	53,367
Other Assets	2,038	9,000	11,038
Total assets	871,707	144,733	1,016,440

D.1.1 Valuation of assets

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

The table below summarises per material class of asset the basis, methods and main assumptions used for the valuation of assets. For the data, we refer to the Quantitative Reporting Template (S.02.01.02).

Deferred acquisition costs (DAC) (Revalued for SII)

Under IFRS DAC is amortised over the period in which the related premiums are earned. DAC is not recognised under SII.

Other Intangible assets (Revalued for SII)

Intangible assets consist of computer software and development. Under IFRS they are valued at net book value.

Under SII they are valued at nil unless they can be sold separately and a valuation can be derived from a quoted market price.

Property, plant and equipment (PPE) held for own use (Revalued for SII)

Under IFRS PPE is stated at cost less accumulated depreciation and impairment losses, which is approximated to be its market value. Under SII they are valued on the same basis.

Deferred tax assets

The valuation under the SII BS is based on the difference between the value of the underlying assets and liabilities in the SII BS and the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax assets. The specific tax position is considered in case of a net deferred tax asset position.

A net deferred tax asset is only recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Therefore, when an entity has a history of recent losses, it is only able to recognise a deferred tax asset arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Investments Bonds

Corporate bonds are valued at fair value under both IFRS and SII.

Investments – Property

Investments in property (held not for own use) are measure using fair value. Monthly valuations are received from the investment management company and fluctuation in fair value are charged to the profit and loss account. An illiquidity provision of £1.9m has been applied to the net asset valuation of the fund relating to the suspension during the year of transfers from the fund. These restrictions are expected to be lifted during 2024.

Reinsurance recoverables

The balance represents the sum of reinsurance premium provision and reinsurance claim provision discounted under IFRS and SII.

Insurance & intermediaries receivables

The balance represents premiums receivable from the intermediary and are valued at cost value under both IFRS and SII because of the short term nature of the receivables.

Reinsurance Receivables

These are short-term and valued at cost under both IFRS and SII.

Cash and cash equivalents

Cash and cash equivalents have a term of less than three months. Their face value is taken to approximate fair value under both IFRS and SII.

Other assets

This is a short-term asset and valued at cost under both IFRS and SII which mainly composed of £9m receivable from parity together with other receivables. An amount of £2.7m under IFRS relates to prepaid expenses. Due to the nature of these expenses they are valued at nil under SII.

D.2 Technical provisions

D.2.1 Technical provisions by line of business

Technical Provisions at 29 February 2024 £'000

	Motor vehicle liability insurance	Other motor insurance	Home	Total non-life obligation (per S.17.01)	Annuities stemming from non-life insurance contracts (per S.12.01)	Total technical provisions
Premium Provisions	129,757	59,335	35,107	224,199		224,199
Claims Provisions	286,840	(25,726)	55,408	316,522	26,824	343,346
Total best estimate - gross	416,596	33,610	90,516	540,722	26,824	567,546
Risk margin	6,851	198	3,106	10,156	3,060	13,216
Total gross technical provisions	423,447	33,808	93,622	550,877	29,884	580,761
Total recoverable from reinsurance	162,207	28,279	7,497	197,983	16,327	214,311
Net technical provisions	261,240	5,529	86,125	352,894	13,556	366,450

Technical Provisions at 28th February 2023 £'000

	Motor vehicle liability insurance	Other motor insurance	Home	Total non-life obligation (per S.17.01)	Annuities stemming from non-life insurance contracts (per S.12.01)	Total technical provisions
Premium Provisions	92,923	36,680	25,232	154,835		154,835
Claims Provisions	285,104	(17,004)	46,298	314,398	28,691	343,089
Total best estimate - gross	378,027	19,675	71,531	469,233	28,691	497,924
Risk margin	11,978	230	4,280	16,488	3,746	20,235
Total gross technical provisions	390,005	19,905	75,811	485,721	32,438	518,159
Total recoverable from reinsurance	149,133	16,169	6,172	171,473	17,459	188,932
Net technical provisions	240,872	3,736	69,639	314,248	14,979	329,227

D.2.2 General comments on valuation of technical provisions

The value of technical provisions under Solvency II is equal to the sum of the best estimate of the liabilities and the risk margin. To calculate the best estimate of the liabilities, the probability-weighted average of the expected present value of all future cash flows based on the risk-free yield curve (with volatility adjuster for PPOs) is used whereas the risk margin, which is aimed at ensuring there is sufficient capital to run-off the business, is assessed on the basis of the capital costs of the non-hedgeable risks included in the best estimate.

The time horizon used in the calculation of the best estimate is the full lifetime of the existing (re)insurance liabilities on the date of valuation. The determination of the lifetime of the (re)insurance portfolio is based on contract boundaries and realistic assumptions about when the existing liabilities will be discharged, cancelled or expired. The boundary of the contract is defined by the technical specifications as:

(a) Where the insurance or reinsurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject the premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at some point in the future, any obligations which relate to insurance or reinsurance cover which would have been provided by the insurance or reinsurance undertaking after that date do not belong to the existing contract;
(b) Where the undertaking's unilateral right to terminate the contract or to unilaterally reject the premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined above are applied to this part; and
(c) All other obligations relating to the terms and conditions of the contract belong to the contract.

Discounting cash-flows is performed for all relevant cash–in and cash–out flows, e.g. premiums, claims payments. As a simplification, cash-flows are expected to emerge at mid-year. Discounting is performed in line with the PRA policy statement 24/20: UK insurance firms are required to use technical information published by the PRA to calculate the technical provisions required by Solvency II. Discounting is performed based on the interest curves for liabilities where the insurers are permitted to use a volatility adjustment (VA).

TU's business is managed in a more granular way than at SII Lines of Business level, so the assumptions are also set at a more granular level.

All expenses to be incurred in servicing insurance and reinsurance obligations are taken into account. They include direct operating expenses, overhead expenses as well as allocated central head-office expenses. Expenses associated with reinsurance contracts are included in the gross calculation of the best estimate.

The allowance for inflation is consistent with the economic assumptions made. Inflation rates are justifiable relative to external sources of information such as Consumer or Retail Price Indices.

The total of allocated commissions represents the actual commissions for the reporting year and cover Acquisition commission, Renewal commission, Bonus commission and claw-back of unearned commission in case of lapse.

D.2.3 Non-life technical provisions

Non-life provisions consist of:

- Claims provision: cash flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims).
- Premium provision: the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined below.

Granularity

The best estimate of claims provision and premium provision are calculated separately with a split between gross cash flows and reinsurance related cash flows. The minimum level of segmentation is at homogeneous risk group level with a minimum level being the Solvency II Lines of Business.

Cash flow projection for claims provision

The Claims provision includes:

Inward cash-flows

- Recoverables for salvage and subrogation; and
- Recoverables from reinsurance contracts and special purpose vehicles (for calculation of net best estimate).

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries;
- Expenses incurred in servicing insurance obligations; and
- Reinstatement premiums.

The Premium provision includes:

Inward cash-flows

- Premiums to be written until the term of the contract (future premiums);
- Recoverables for salvage and subrogation; and
- Recoverables from reinsurance contracts.

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract;
- Commissions to be paid since the valuation date until the term of the contract;
- Reinsurance premium or reinstatement premiums;
- Expenses incurred in servicing (re)insurance obligations;
- Expenses necessary to handle claims until settlement;
- Expenses necessary to administer contracts during the valuation period;
- Acquisition expenses (other than commissions); and
- Investment expenses necessary to administer the assets representing the liabilities related to contracts during the valuation period;

Claims payments

Claims are split into five categories: attritional claims (claims with a cost under a predefined threshold), large claims (claims with a cost above a predefined threshold excluding catastrophe claims) – split into claims settled as lump sum payments and claims settled as Periodic Payment Orders (PPOs), claims arising from natural catastrophe events and claims arising from

binary events (restricted to events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims)).

The main reason for isolating large (lump sum and PPO claims) and catastrophe claims from others is that, in many cases, large claims require a dedicated valuation technique. The main reason for this is that non-proportional reinsurance applies only to those claims. PPO claims need to be separately identified for the purpose of QRT reporting, and the inputs feed into the capital model within the Similar to life category. As a consequence, isolating large and catastrophe losses from other losses warrants an appropriate calculation of best estimate values and of the uncertainty around it, both on a gross and net basis.

Methods to value attritional claims are aggregate methods where claims are grouped per accident period and where payments are grouped by accounting period to form a claims triangle. For large losses various methods are available including specific individual large loss methods. Large losses, including PPO claims are modelled using a combination of aggregate methods and individual large loss projection methods in order to compute the reinsurance recoveries.

Tail Factor

In many loss reserve analyses, especially those involving long-tail branches (losses that do not proceed to final settlement until several years beyond the policy year), the observed historical loss development information may end before all the claims are expected to be settled and before the final costs are known. Assessments, based on the available triangle data, may lead to consider a *tail factor* that estimates the development beyond the last stage of known historical developments.

Reinsurance Recoveries

Recoverables from reinsurance contracts, are recognised and valued according to the valuation principles for non-life premium and claims provisions and are shown separately on the asset side of the balance sheet (as “recoverables from reinsurance contracts”). The time value of money is taken into account in the calculation of reinsurance recoveries.
TU’s reinsurance programme comprises:

Motor and Home Excess of Loss programmes; a Motor Adverse Development Cover (ADC) and a 45% Motor Quota Share treaty for each underwriting years 2021 to 2024.

Expenses related to the internal processes for reinsurance (such as administration or management) are allowed for in the expenses forming part of the gross best estimate.

Expenses

Expenses assumptions are based on experience over the last year or some other recent period. In this respect the past one-off expenses may be more or less adjusted. Expenses are calculated on a going concern basis and also on a run-off basis for comparison purposes.

Commissions

Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

Acquisition Expenses

Future acquisition costs are valued regarding cash-flows related to premium provisions and considered differently depending on whether the premium has already been written or not. For the part of provision constituted by premium already written, no acquisition cost is projected since all expenses are considered as having been paid at the drawing up of the contract.

For renewals, acquisition costs are reduced with the part of the cost related to the drawing up of the contract.

Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are first allocated to premium provisions.

Claims Expenses

Claim management expenses which are related to claims that have occurred before the valuation date are considered for the cash-flows related to claims provisions.

Expenses related to claims that will occur in the period covered by the in-force premiums are considered regarding cash-flows related to premium provisions.

Events Not in Data (ENIDs) – Natural Catastrophe events

The definition of "ENIDs" is restricted to those events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims) and is not otherwise considered in the best estimate as absent from historical observation or is considered as an outlier in the valuation methods applicable to attritional or large claims. TU makes a distinction between the claims arising from natural catastrophe events classified as Natural Catastrophe claims and others, called Events Not in data (ENIDs).

Typical Natural Catastrophe events are Earthquakes, Floods, Windstorms, Tsunamis, etc.

Typical ENIDs are latent claims e.g. asbestos, legislative changes e.g. Ogden table changes, etc.

ENIDs must be explicitly considered in premium provisions and claims provisions, in a consistent way. Natural catastrophe events must be explicitly considered in premium provisions. Not all lines of business will be affected to the same extent by ENID and natural catastrophe events. Longer tailed classes of business are more affected by ENIDs. The approach and methods used to calculate the allowance for catastrophe and ENIDs are simplified methods using benchmarking and expert judgment.

Inflation

Inflation is considered when projecting future cash-flows: the cash-flows that are potentially impacted by inflation are:

- Claims costs;
- A 45% Motor Quota Share treaty for underwriting years 2021 to 2024;
- Expenses: the biggest part of expenses are salaries that will evolve over time; and
- Inflation that applies to claims, called "claims inflation".

The assumptions used for valuation are consistent with other uses of Claim inflation.

Contract boundaries

In addition to the generic definition the premium provision is affected by the issues arising with respect to the contract boundary.

This document defines "unincepted business" as those contracts where a legal obligation exists but the coverage period has not started yet and also multi-year contracts.

Options and guarantees/Policyholder behaviour

This is not relevant as TU does not include options and/or guarantees in its non-life book of business.

Management action

TU does not currently consider any management action as policies currently written by TU for non-life products do not include any (discretionary) participating features.

Expert Judgment

Typical areas in non-life where expert judgment is applied are:

- Tail factors as they affect the whole claims portfolio contained in a triangle, it is usually a highly material item;
- Loss ratios affect single years, where the most uncertain parameters for the most recent years typically have the biggest impact. The loss ratio of the current year essentially determines the premium provision and is thus highly material;
- The potential impact of events not seen in historic data;
- Continuing impact of the current inflationary environment;
- Impact of legislative changes;
- Allowance for ENIDs.

D.2.4 The level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error). A yearly model assessment is performed in order to review any potential modelling feature that is missing in the model and that might be significant to the determination of the Best Estimate.

Such an assessment of the model error may be carried out by expert judgement or by more sophisticated approaches, for example:

- Sensitivity analysis in the framework of the applied model: this means varying the parameters and/or the data thereby observing the range where a best estimate might be located;
- Comparison with the results of other methods: applying different methods gives insights into potential model errors. These methods would not necessarily need to be more complex;
- Descriptive statistics: in some cases the applied model allows the derivation of descriptive statistics on the estimation error contained in the estimation. Such information may assist in quantitatively describing the sources of uncertainty;
- Back-testing: comparing the results of the estimation against experience may help to identify systemic deviations which are due to deficiencies in the modelling; and
- Quantitative assessment scenario as benchmark.

D.2.5 Impact of the reduction of the volatility adjustment to zero

Within the Solvency II regulations it is permissible (with approval) to use a volatility adjustment, which increases the rate used to discount cashflows in the valuation of assets and liabilities. The principle of having a volatility adjustment is that a buy and hold investor who is not impacted by the volatility of assets caused by market fluctuations, is able to use a more appropriate

discount rate, reflecting assets held. In 2019 TU submitted, and had approved, an application to use a volatility adjustment within Solvency II reporting. Excluding the use of the volatility adjustment at 29 February 2024, SII own funds would have reduced by £1.3m to £221.7m, leading to a capital coverage of 157.6%.

D.2.6 Material changes in the relevant assumptions made in the calculation of technical provisions compared to previous reporting period

Given the current inflationary environment, it has been necessary to apply more expert judgement on the development of claims, since the assumption that historic development is a reliable guide for the future is not as valid. In particular, given changes in the associated severity of claims it has been necessary to apply more judgement to assess potential outcomes.

D.2.7 Material differences between the basis, methods and assumptions used for technical provisions in the Solvency II BS compared to IFRS

A difference in methodology exists between SII reserving and IFRS reserving. The technical reserves mentioned in S II BS are subject to the valuation requirements in delegated acts, implementing technical standards, guidelines and information as published by the PRA. These valuation principles are not the same as those required by local accounting regulations that are still applicable to technical provisions as defined under International Financial Reporting Standards (IFRS 4). The underlying approach towards quantifying reserves under IFRS is disclosed in the 2023/24 annual accounts of TU.

The key difference in the valuation of the premiums provisions is that the portion of premium included in liability for remaining coverage on an IFRS basis is replaced with the best estimate of claims and expenses arising from incepted but unearned and legally bound unwritten business.

D.2.8 Matching Adjustment

TU does not apply a matching adjustment to the technical provisions.

D.2.9 Transitional risk-free interest rate term structure

TU does not apply a transitional risk-free interest rate term structure.

D.2.10 Transitional deduction

TU does not apply a transitional deduction to the technical provisions.

D.3 Other liabilities

Subordinated debt within the IFRS balance sheet classified as subordinated liabilities has been reclassified from liabilities to own funds in line with SII requirements. Each of the eligibility criteria required for the subordinated debt to qualify as Tier 1 restricted capital, as set out in Article 73 of delegated regulation (EU) 2015/35 have been met. The debt is fully subordinated in the event of a winding up, with the claims of the holder of the debt subordinated to the claims of the senior creditors (including

policyholders and non-subordinated creditors). The subordinated debt is fully available to absorb losses and is free from encumbrances.

The Company had the following liabilities:

Liabilities at 29 February 2024 £'000

-	IFRS Accounts	SII Adjustments	SII Balance Sheet
Liabilities			
Technical provisions	624,365	(43,604)	580,761
Deposits from reinsurers	0	149,086	149,086
Insurance & intermediaries payables	0	5,334	5,334
Reinsurance payables	0	1,297	1,297
Payables (trade, not insurance)	0	34,157	34,157
Subordinated liabilities in own fund	42,333	0	42,333
Any other liabilities	2,334	479	2,813
Total liabilities	669,033	146,748	815,781

D.3.1 Valuation of other liabilities

The key estimates and judgements applied are disclosed within TU's 2023/24 Annual Report. With respect to Solvency II additional estimation uncertainty is applied mainly in the valuation of technical provisions and reinsurance recoverables. Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error).

D.4 Alternative methods for valuation

The table below summarises per material class of asset and other liabilities the material differences between the valuation for Solvency II purposes and the IFRS valuation. For the data we also refer to the Quantitative Reporting Template (S.02.01.02).

Deferred Tax Liability

Provision made on all timing differences including revaluation gains and losses on investments and is calculated at the expected tax rate.

Deposits from reinsurers

Valued at amortised cost in both IFRS and SII, deposits from reinsurers includes short-term amount of quota share fund withheld from reinsurers.

Insurance & intermediaries payables

Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short-term nature of the payables.

Reinsurance payables

Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short-term nature of the payables.

Payables (trade, not insurance)

Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value. Such payables include mainly payable for IPT on premium, levies accrual, together with other sundry creditors and amount due to Tesco Bank.

Subordinated liabilities in own funds

The subordinated loans are advanced by shareholders. The loans are floating rate based on a margin above SONIA. The interest paid changes as the market interest rate changes leaving the market value of the loans materially unchanged. Overall, the market value of the loans will remain very close to the nominal value of the loan. Valuation is the same in both IFRS and SII.

Any other liabilities, not elsewhere shown

Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short-term nature of the payables. cost and fair value because of the short-term nature of the payables. 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.

D.5 Any other information

There is no other information to disclose.

E

CAPITAL MANAGEMENT

E.1 Own Funds

E.1.1 Available Capital

During the period to 29th February 2024, through a combination of business profitability partly offset by an increase in unrealised losses on financial assets, TU's own funds increased from £195.2m to £223.0m.

In more detail basic own funds at 29th February 2024 of £223.0m (28 February 2023: £195.2m) represents SII assets of £1,016.4m (28 February 2023: £885.6m) , less SII liabilities of £815.8m (28 February 2023: £732.6m).

£k	**2024**	**2023**
Assets	1,016,440	885,555
Liabilities	(815,781)	(732,649)
Subordinated Loan	42,333	42,333
Proposed dividend	(20,000)	
Own funds	222,992	195,238

E.1.2 Objectives, policies and processes for managing own funds

The multi-year planning process which is reviewed and approved in each 4th quarter of the financial year considers the implications of business performance on the capital of the company over the following 3 years.

The main goal of the capital management process is to protect policyholders, whilst optimising capital structure, composition and allocation of capital, funding profitable growth and protect viability and profitability and fund dividends to its Shareholders.

TU applies a capital management policy which sets rules and ensures discipline on:

- Capital Planning: the capital level the TU Board wants to hold, which is a function of:
  - Legal requirements, and anticipated changes;
  - Growth ambitions, and future capital commitments; and
  - Security buffers to ensure we meet obligations according to our Risk Appetite Policy.

- Capital Allocation: capital use that TU foresees, which is a function of:
  - Optimisation of risk reward; and
  - Measured performance;

- Dividend policy (and future capital raising).

Capital management policies and processes are included in the risk management system, ORSA process and internal control environment as disclosed in Section B Governance.

There have been no material changes to the objectives for managing own funds in the period.

E.1.3 Information about the structure, amount and quality of basic own funds and ancillary own funds

The position at 29th February 2024 is:

TIERING £m

in GBP mln	2024			2023			
	ACTUAL	**% Tier 1**	**% Own funds**	**ACTUAL**	**% Tier 1**	**% Own funds**	**Movement**
Tiering							
Tier 1 (unrestricted)	173.2	80%		137.0	80%		36.2
Tier 1 (grandfathered hybrids)	42.3	20%		34.3	20%		8.1
Total Tier 1 capital	**215.5**	100%	97%	**171.3**	100%	88%	**44.3**
Tier 2 hybrid capital	0.0		0%	8.1		4%	-8.1
Tier 3	7.5		3%	15.9		8%	-8.4
Total Own funds	223.0		100%	195.2		100%	27.8

At the period end of 29th February 2024;

- 97% of the Own funds are of the highest Tier 1 quality and able to fully absorb losses.
- The sum of the grandfathered (restricted) Tier 1 components amounts to 20% of total Tier 1 capital fulfilling the 20% regulatory limit.
- Tier 3 capital represents the part of Own Funds equal to the recognized Deferred Tax Assets (DTA) in the market consistent balance sheet.
- The movement in the year in Tier 1 (unrestricted) own funds are mainly due to operating profits in the year.

Own funds at year-end 29th February 2024 do not contain ancillary Own Funds.

E.1.4 Eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Capital Requirement classified by tiers

29 February 2024 £'000

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the SCR	222,992	215,539	-	7,453
	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the MCR	215,539	215,539	-	

28 February 2023 £'000

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the SCR	195,238	171,274	8,079	15,886

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the MCR	179,293	171,274	8,019	

At the end of 29th February 2024 TU's SCR is £140.7m and MCR is £56.3m. The eligible amount of own funds to meet the SCR is £223.0m and to meet the MCR is £214.3m and is assessed as follows:

- At least 50% of the SCR, which amounts to £70.4m of TU's SCR for 2024, should be covered by Tier 1 capital. TU is well above this limit.

- In addition, Tier 1 capital is a combination of Unrestricted Tier 1 capital (ordinary share capital and retained earnings) and Restricted Tier 1 capital (subordinated loans). Restricted Tier 1 capital (TU's subordinated loan of £42.3m), is capped at 25% of Unrestricted Tier 1 capital, with any excess classed as Tier 2 capital. All the £42.3m subordinated loan is included in Tier 1 capital.

- At least 80% of the MCR, which amounts to £45.0m of TU's MCR for 2024, should be covered by Tier 1 capital. TU is well above this limit.

Deferred Tax Asset/(Liability)

IFRS

As at 29th February 2024, under IFRS TU recognised a deferred tax asset of £6.8m comprising of :-

	2024
	£m
Unrealised loss on assets held as AFS through OCI	6.4
Other temporary differences	0.4
Deferred tax asset	6.8

The deferred income tax recognised through OCI during the year relates to unrealised movements on financial investments. The movement in unrealised losses for period ending 29th February 2024 was £6.4m (2023: £14.5m)

The deferred tax impact on Solvency II adjustments has been calculated at 25%.

SII

Transitioning from a Balance Sheet under IFRS, to a SII Balance Sheet, at 29th February 2024 the Company has made reduction in net assets of £2.7m. The deferred tax asset adjustment based on this adjustment is £0.7m calculated at 25%.:-

	£m
Change in net technical provisions	24.8
All Other Movements	(27.5)
Total SII adjustments	(2.7)
Deferred Tax @ 25%	0.7
Add IFRS Deferred Tax Asset	6.8
SII Deferred Tax Asset	**7.5**

The SII deferred tax asset of £0.7m is then added to the IFRS deferred tax asset of £6.8m to create a SII Deferred Tax Asset of £7.5m.

£7.5m of net deferred tax assets are available as basic own-fund items classified as Tier 3 in accordance with Article 76 (a) (iii) and applying the eligibility limits set out in Article 82 of Commission Delegated Regulation (EU) 2015/35.

E.1.5 Quantitative and qualitative explanation of any material differences between equity as shown in the undertaking's financial statements and the available own funds as calculated for solvency purposes

Differences between equity in the IFRS financial statements and the excess of assets over liabilities as calculated for Solvency II purposes (Own Funds) are explained in detail in Section D and mainly stem from the following sources:

- Reclassification of subordinated liabilities;
- Valuation differences due to assets and liabilities not recorded at fair value under IFRS;
- Liabilities arising from insurance and investment contracts also need to be recognised at market-consistent values; and
- De-recognition of other intangibles under Solvency II.

The reconciliation from IFRS equity to Solvency II Own Funds is as follows:

Reconciliation IFRS Equity to Own Funds in £'000

	Actual 2024	Actual 2023
Total Shareholders Equity	202,674	157,004
Subordinated Liabilities	42,333	42,333
Total Valuation differences	**(22,016)**	**(4,099)**
Derecognition of intangible assets	(24,782)	(16,398)
Derecognition of prepayments	(2,707)	(1,887)
Net best estimate of discounted liabilities	24,801	12,820
Tax impact on valuation differences	672	1,366
Forseeable dividend	(20,000)	-
Total Solvency II Own Funds (PIM)	222,991	195,238

During the period ending 29th February 2024, through a combination of business profitability partly offset by an increase in unrealised losses on financial assets TU's own funds increased from £195.2m to £223.0m.

No items have been deducted from own funds, and there are no restrictions in relation to the availability and transferability of own funds.

See section D for further detail on the adjustments made between IFRS and Solvency II.

E.2 Solvency Capital Requirement and Minimum Capital requirement

E.2.1 Quantitative information on our SCR split by risk modules where Standard Formula is used and by risk category where an internal model is applied (unaudited)

The composition of the Solvency II capital solvency requirements can be summarised as follows:

	2024	**2023**
Market Risk	45,876	34,928
Counterparty Default Risk	14,930	11,983
Non-Life Underwriting Risk	87,713	95,999
Diversification between above mentioned risks	(31,536)	(26,224)
Non-Diversifiable Risks	23,762)	(14,642)
Loss-Absorption through Deferred Taxes		(8,516)
Required Capital under PIM SCR	**140,745**	**122,811**
Impact of Non-Life Internal Model on Non-Life Underwriting Risk	14,357	3,069
Impact of Non-Life Internal Model on Life Underwriting Risk	534	261
Impact of Non-Life Internal Model on Counterparty Default Risk	301	273
Impact of Non-Life Internal Model on Diversification between risks	(2,961)	(500)
Capital Solvency Requirements under the SII Standard Formula	152,977	125,913

Available Capital of £223.0m at 29th February 2024 (2023: £195.2m) represents 158.4% (2023: 159.0%) coverage of SCR PIM.

Within the PIM SCR, TU accounts for £13.3m in respect of the loss absorbing capacity of deferred taxes (2023: £8.5m). In 2024, this figure has been calculated within the PIM underwriting risk module by applying the average tax rate to modelled profitable scenarios and is presented within "Non-Life Underwriting Risk" in the above table. In contrast, the 2023 figure was calculated the same way as the Standard Formula, i.e. taking into account a prudent view of the expected profit (pre-tax) over the next 12 months, multiplied by the average tax rate over the coming 12 months.

TU's PIM covers the entirety of TU's business in respect of Non-Life underwriting risk. The main sub-components of the model are Premium Risk and Reserve Risk. Within Premium Risk and Reserve Risk there are separate components for TU's lines of business and different claim types. For the purpose of the SCR, it is calibrated to assess the risk at the 99.5th percentile over a one-year time horizon. Market risk, counterparty default risk and operational risk are calculated using the Solvency II Standard Formula. Within the Standard Formula no simplifications are used and no Undertaking Specific Parameters (USPs) are used.

Outside of the setting of the SCR, TU's PIM is used for capital allocation, which feeds into pricing, for reinsurance purchases and reinsurance optimisation, as a tool to support the ORSA and to support investment modelling with a view to matching assets and liabilities and assessing the risk/return trade-off.

The PIM uses a variety of methods and assumptions in generating an overall probability distribution forecast. The model is composed of a number of components, which are appropriate for modelling variability by line of business for premium and Reserve risk. For example, within Reserve risk, historic reserve variability, combined with bespoke large loss modelling and TU's reinsurance arrangements are used together. Within Premium risk, allowance is made for variability of attritional claims using TU's own data with overlays to include natural catastrophes, man-made catastrophes and variability of individual large losses where the frequency and severity are modelled. A matrix structure is used to aggregate the components using correlations determined by experts in the business, with reference to the Standard Formula.

The SCR has increased by £18m over the year primarily as a result of growth in business volumes including an increase in the catastrophe exposure in non-life underwriting risk.

The Standard Formula SCR is higher than the Internal Model SCR for Non-Life Underwriting Risk by £12.2m at 29th February 2024 (£3.1m in 2023). The main reason for this increase in surplus is the recognition of part of insurance profit within the SCR.

The Minimum Capital Requirement (MCR) at 29th February 2024 is £56.3m (2023: £40.4m). The MCR has been calculated using the outputs from the SCR PIM, premiums and technical provisions.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement (unaudited)

This is not applicable for TU.

E.4 Differences between the Standard Formula and any internal model used (unaudited)

On the 23rd December 2015, Tesco Underwriting was granted authorisation to use its partial internal model (PIM) to calculate its Solvency Capital Requirement as part of the Ageas Group, with some terms and conditions which were subsequently fully satisfied. In December 2020 TU received authorisation to use a solo PIM, without terms and conditions, in the context of it being fully owned by Tesco Bank. The scope of this partial internal model is the Underwriting component of the Standard Formula.

The Standard Formula has been calibrated to be appropriate for an average Solvency II insurer. Given TU's relative size and straightforward approaches to investment, counterparty and other risk types, the Standard Formula is reasonably well aligned to TU.

TU uses the PIM to calculate its SCR and uses the Standard Formula SCR calculation to monitor portfolio and model changes, including model drift.

The key drivers of the differences between the Standard Formula SCR and Internal Model SCR are as follows:

- Different calculation basis on underwriting risks: The Standard Formula uses a deterministic shock based approach to assess a 99.5% loss, whereas the partial internal model generates a distribution using stochastic simulations. From this distribution, the 99.5% loss is assessed.
- Dependency Structure – Correlation and diversification: The Standard Formula has been developed for an average Solvency II insurer and uses a relatively simple approach for combining different risk types. The line of business risks at the 99.5% level are combined and aggregated using EIOPA specified correlation matrices under Annex IV of the delegated regulation (EU) 2015/35. The PIM, by comparison takes a more granular approach to losses before combining them. For example, large losses and attritional losses are dealt with separately and reinsurance is assessed in each simulation to generate distributions both gross and net of reinsurance.

Reserve risk:

Split into Motor Liability (attritional and large), Motor Other and Household. A bespoke model is used for large Motor liability claims taking into account the modelling of PPO propensity, longevity and inflation, interacting with TU's reinsurance programmes. Outside of these reserves, TU's historic variability is used to calibrate loss distributions for each line of business. The distributions are then combined using correlation matrices to produce a Reserve risk distribution.

Settled PPO claims are dealt with under Life Underwriting Risk within the Standard Formula.

Premium Risk:

Split into Motor liability (attritional and large), Motor Other and Household. Loss ratios and historic variability are used to calibrate loss distributions outside of ML large. For ML large, TU's own data, combined with market data and expert judgement are used to calibrate the frequency and severity of large losses. The above distributions are then combined using correlation matrices to produce a Premium risk distribution.

Catastrophe Risk (Natural and Man-Made):

TU's exposure is fed into an external catastrophe model. This is used to generate a number of natural catastrophe losses in different locations and with different impacts. Man-made losses are generated from a study into historic man-made CAT losses. Reinsurance is calculated in line with the relevant programmes for each of the losses generated from the above simulations. The results from CAT risk are combined using a correlation matrix.

Each of Reserve Risk, Premium Risk and Catastrophe Risk are combined using a correlation matrix to arrive at an overall distribution for Insurance risk within the PIM.

The parameterisation of the model is driven largely by TU's own experience on shorter tailed classes of business. The policy and claims data used within the model parameterization is of good quality and is fit for purpose. For the submissions done during the reporting period under consideration, it was ensured that the data feeding into the PIM and SCR calculation has been reviewed in detail by Finance before each of quarterly and annual submissions.

The PIM is governed by TU's Model Control Committee (MCC) and validated by an external independent validation team. The MCC assesses the appropriateness of models and methodologies and ensures compliance with the Solvency II regulations and any terms and conditions imposed by TU's regulators (PRA). The PRA approved solo PIM will continue to be governed by TU's MCC and be validated by external validators.

The adverse development cover reinsurance contains a benefit of £6.3m as at 29 February 2024. The Quota Share cover has a £14.1m benefit. Please note these have been calculated excluding any impact to mean insurance profit.

TU uses the Standard Formula for market risk, counterparty default risk and operational risk, having determined that this is appropriate for the business. The combination of the risks and non-life underwriting risk is done using the same correlation matrix as the Standard Formula in for the period ending 29 February 2024.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement (unaudited)

There is no non-compliance with either the Minimum Capital Requirement or the Solvency Capital Requirement.

E.5.1 Capital contingency plan

TU operates a Capital Contingency Plan which gives the business guidance on actions / considerations at different SII capital coverage levels. For example, TU successfully implemented its Capital Contingency Plan in the first quarter of 2017 following the announcement of the reduction in the Ogden discount rate from 2.5% to minus 0.75% on 27th February 2017. Together with 2017 profitability and the implementation of additional reinsurance this increased TU's coverage from 101% to 169% at the end of 2017.

E.5.2 Other information regarding capital management (unaudited)

For the period ending 29th February 2024 TU had Solvency II own funds of £223.0m. With the TU SCR PIM at £140.7m this resulted in capital coverage of 158.4%.

E.6 Any other information

There is no other additional information.

Appendix
ANNUAL QUANTITATIVE REPORTING TEMPLATES (QRTS)

S.02.01.02

Balance sheet

	Solvency II value
Assets	
Intangible assets	
Deferred tax assets	7,453
Pension benefit surplus	
Property, plant & equipment held for own use	1,603
Investments (other than assets held for index-linked and unit-linked contracts)	698,324
Property (other than for own use)	0
Holdings in related undertakings, including participations	0
Equities	0
Equities - listed	
Equities - unlisted	
Bonds	681,628
Government Bonds	75,964
Corporate Bonds	597,210
Structured notes	0
Collateralised securities	8,454
Collective Investments Undertakings	16,696
Derivatives	
Deposits other than cash equivalents	0
Other investments	0
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	0
Loans on policies	0
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	214,311
Non-life and health similar to non-life	197,983
Non-life excluding health	197,983
Health similar to non-life	0
Life and health similar to life, excluding index-linked and unit-linked	16,327
Health similar to life	0
Life excluding health and index-linked and unit-linked	16,327
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	18,952
Reinsurance receivables	11,390
Receivables (trade, not insurance)	
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	53,367
Any other assets, not elsewhere shown	11,041
Total assets	1,016,440

S.02.01.02

Balance sheet

	Solvency II value
Liabilities	
Technical provisions - non-life	550,877
Technical provisions - non-life (excluding health)	550,877
TP calculated as a whole	0
Best Estimate	540,722
Risk margin	10,156
Technical provisions - health (similar to non-life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	29,884
Technical provisions - health (similar to life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding health and index-linked and unit-linked)	29,884
TP calculated as a whole	
Best Estimate	26,824
Risk margin	3,060
Technical provisions - index-linked and unit-linked	0
TP calculated as a whole	
Best Estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	149,086
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	5,334
Reinsurance payables	1,297
Payables (trade, not insurance)	34,157
Subordinated liabilities	42,333
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	42,333
Any other liabilities, not elsewhere shown	2,813
Total liabilities	815,781
Excess of assets over liabilities	200,658

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance o

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	
Premiums written				
Gross - Direct Business	361,090	84,700	87,452	533,242
Gross - Proportional reinsurance accepted				0
Gross - Non-proportional reinsurance accepted				0
Reinsurers' share	43,895	0	9,256	53,151
Net	317,195	84,700	78,196	480,091
Premiums earned				
Gross - Direct Business	280,710	65,846	73,892	420,448
Gross - Proportional reinsurance accepted				0
Gross - Non-proportional reinsurance accepted				0
Reinsurers' share	40,828	0	8,734	49,562
Net	239,882	65,846	65,158	370,886
Claims incurred				
Gross - Direct Business	113,688	112,479	66,008	292,175
Gross - Proportional reinsurance accepted				0
Gross - Non-proportional reinsurance accepted				0
Reinsurers' share	-3,110	0	2,620	-491
Net	116,799	112,479	63,388	292,666
Changes in other technical provisions				
Gross - Direct Business				0
Gross - Proportional reinsurance accepted				0
Gross - Non-proportional reinsurance accepted				0
Reinsurers' share				0
Net	0	0	0	0
Expenses incurred	34,838	8,172	15,835	58,845
Other expenses				
Total expenses				58,845

S.05.01.02

Premiums, claims and expenses by line of business: Life

	Line of Business for: life insurance obligations	
	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
Premiums written		
Gross		0
Reinsurers' share		0
Net	0	0
Premiums earned		
Gross		0
Reinsurers' share		0
Net	0	0
Claims incurred		
Gross	-463	-463
Reinsurers' share	11	11
Net	-474	-474
Changes in other technical provisions		
Gross		0
Reinsurers' share		0
Net	0	0
Expenses incurred	0	0
Other expenses		
Total expenses		0

S.12.01.02

Life and Health SLT Technical Provisions

	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (Life other than health insurance, including Unit-Linked)
Technical provisions calculated as a whole		0
Technical provisions calculated as a sum of BE and RM		
Best estimate		
Gross Best Estimate	26,824	26,824
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	16,327	16,327
Best estimate minus recoverables from reinsurance/SPV and Finite Re	10,496	10,496
Risk margin	3,060	3,060
Amount of the transitional on Technical Provisions		
Technical Provisions calculated as a whole		0
Best estimate		0
Risk margin		0
Technical provisions - total	29,884	29,884

S.17.01.02

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance			Total Non-Life obligation
	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	
Technical provisions calculated as a whole	0	0	0	0
Technical provisions calculated as a sum of BE and RM				
Best estimate				
Premium provisions				
Gross	129,757	59,335	35,107	224,199
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	49,694	33,380	-325	82,749
Net Best Estimate of Premium Provisions	80,063	25,955	35,432	141,450
Claims provisions				
Gross	286,840	-25,726	55,408	316,522
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	112,514	-5,101	7,821	115,234
Net Best Estimate of Claims Provisions	174,326	-20,625	47,587	201,288
Total best estimate - gross	416,596	33,610	90,516	540,722
Total best estimate - net	254,389	5,330	83,019	342,738
Risk margin	6,851	198	3,106	10,156
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole				0
Best estimate				0
Risk margin				0
Technical provisions - total	423,447	33,808	93,622	550,877
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	162,207	28,279	7,497	197,983
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	261,240	5,529	86,125	352,894

S.19.01.21

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year | Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
Prior											-158	-158	1,464,230
-9	159,066	64,834	21,213	18,824	19,821	7,132	7,974	2,514	1,386	234		234	303,000
-8	155,539	54,871	32,265	19,040	9,231	19,647	4,335	880	79			79	295,886
-7	139,458	52,402	20,259	24,783	8,517	7,740	1,339	98				98	254,597
-6	140,336	54,035	18,704	13,135	12,327	3,526	1,851					1,851	243,914
-5	132,775	44,289	16,904	16,642	5,983	236						236	216,829
-4	92,106	34,952	14,525	10,846	1,759							1,759	154,189
-3	107,411	37,506	17,338	1,445								1,445	163,700
-2	147,413	73,077	3,206									3,206	223,696
-1	206,263	36,547										36,547	242,810
0	18,075											18,075	18,075
											Total	63,371	3,580,925

*Current Year is Accident Year (Jan-Feb 24)

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
Prior											6,574	6,583
-9	154,694	75,677	93,645	47,050	20,278	12,438	8,632	4,356	2,179	1,975		2,010
-8	155,233	158,162	79,108	57,957	38,178	19,842	12,284	11,829	10,830			10,918
-7	162,779	103,067	61,917	26,040	13,777	1,183	433	405				420
-6	162,385	100,941	54,118	47,967	17,439	17,356	16,377					7,326
-5	148,302	111,780	95,410	39,967	12,241	11,560						9,539
-4	133,043	89,487	62,786	33,955	31,912							24,599
-3	128,636	74,587	41,223	33,853								31,285
-2	123,074	77,379	74,882									61,428
-1	142,379	140,116										118,820
0	47,248											43,594
											Total	316,522

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital (gross of own shares)	129,668	129,668		0	
Share premium account related to ordinary share capital	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	43,538	43,538			
Subordinated liabilities	42,333		42,333	0	0
An amount equal to the value of net deferred tax assets	7,453				7,453
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
Deductions for participations in financial and credit institutions	0				
Total basic own funds after deductions	222,992	173,206	42,333	0	7,453
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
Unpaid and uncalled preference shares callable on demand	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Other ancillary own funds	0				
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	222,992	173,206	42,333	0	7,453
Total available own funds to meet the MCR	215,539	173,206	42,333	0	
Total eligible own funds to meet the SCR	222,992	173,206	42,333	0	7,453
Total eligible own funds to meet the MCR	215,539	173,206	42,333	0	
SCR	140,745				
MCR	56,267				
Ratio of Eligible own funds to SCR	158.44%				
Ratio of Eligible own funds to MCR	383.07%				
Reconcilliation reserve					
Excess of assets over liabilities	200,658				
Own shares (held directly and indirectly)	0				
Foreseeable dividends, distributions and charges	20,000				
Other basic own fund items	137,120				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
Reconciliation reserve	43,538				
Expected profits					
Expected profits included in future premiums (EPIFP) - Life business					
Expected profits included in future premiums (EPIFP) - Non- life business					
Total Expected profits included in future premiums (EPIFP)	0				

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement
50101I	Premium risk (Attritional)	45,295
50102I	Premium risk (Large Losses)	10,626
50201I	Reserve risk	45,536
50301I	Non-life catastrophe risk (CAT NAT)	82,358
50302I	Non-life catastrophe risk (CAT Man Made)	7,052
50401I	Non-life lapse risk	1,648
59901I	Diversification within non-life underwriting risk	-104,802
10200I	Interest rate risk up	34,553
10400I	Equity risk	0
10600I	Property risk	4,799
10700I	Spread risk	27,490
10800I	Concentration risk	0
10900I	Currency risk	0
19900I	Diversification within market risk	-20,967
20100I	Type 1 counterparty credit risk	5,710
20200I	Type 2 counterparty credit risk	10,162
20300I	Diversification within counterparty credit risk	-942
70100I	Operational risk	16,262
80300I	Loss absorbing capacity of deferred taxes	0

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Calculation of Solvency Capital Requirement		
Total undiversified components		164,780
Diversification		-31,536
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC		
Solvency capital requirement excluding capital add-on		133,245
Capital add-ons already set		7,500
Solvency capital requirement		140,745
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions		
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes		-13,341
Capital requirement for duration-based equity risk sub-module		
Total amount of Notional Solvency Capital Requirements for remaining part		
Total amount of Notional Solvency Capital Requirement for ring fenced funds		
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios		
Diversification effects due to RFF nSCR aggregation for article 304		
Approach to tax rate		
Approach based on average tax rate		Yes
Calculation of loss absorbing capacity of deferred taxes		**LAC DT**
Amount/estimate of LAC DT		-13,341
Amount/estimate of LAC DT justified by reversion of deferred tax liabilities		
Amount/estimate of LAC DT justified by reference to probable future taxable economic profit		-13,341
Amount/estimate of AC DT justified by carry back, current year		
Amount/estimate of LAC DT justified by carry back, future years		
Amount/estimate of Maximum LAC DT		

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR_{NL} Result	56,046

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	0	
Income protection insurance and proportional reinsurance	0	
Workers' compensation insurance and proportional reinsurance	0	
Motor vehicle liability insurance and proportional reinsurance	254,389	151,840
Other motor insurance and proportional reinsurance	5,330	81,093
Marine, aviation and transport insurance and proportional reinsurance	0	
Fire and other damage to property insurance and proportional reinsurance	83,019	78,196
General liability insurance and proportional reinsurance	0	
Credit and suretyship insurance and proportional reinsurance	0	
Legal expenses insurance and proportional reinsurance	0	
Assistance and proportional reinsurance	0	
Miscellaneous financial loss insurance and proportional reinsurance	0	
Non-proportional health reinsurance	0	
Non-proportional casualty reinsurance	0	
Non-proportional marine, aviation and transport reinsurance	0	
Non-proportional property reinsurance	0	

Linear formula component for life insurance and reinsurance obligations

MCR_L Result	220

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations	10,496	
Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

Linear MCR	56,267
SCR	140,745
MCR cap	63,335
MCR floor	35,186
Combined MCR	56,267
Absolute floor of the MCR	3,495
Minimum Capital Requirement	56,267