TESCO UNDERWRITING LIMITED

Annual Report and Financial Statements
For the year ended 31 December 2020

Registered number 6967289

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Contents

Directors and Advisers

Directors

Colin Anthony
Karl Bedlow (resigned 31/03/2020)
Robin Challand
Adam Clarke
Margot Cronin
Stephen Grainge
Richard Henderson (appointed 01/04/2020)
Declan Hourican
Stephen Kingshott
Simon Machell
Jonathan Price
Caroline Ramsay
Mark Winlow

Secretary

Claire Marsh

Registered Address

Ageas House
Hampshire Corporate Park
Templars Way
Eastleigh
Hampshire
SO53 3YA

Registered Number

6967289
Registered in England and Wales

Independent Auditor

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Bankers

HSBC Bank Plc
165 High Street
Southampton
SO14 2NZ

TESCO UNDERWRITING LIMITED

Strategic Report

The directors present their Strategic Report and Directors' Report, together with the audited financial statements for the year ended 31 December 2020.

Activities

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

Results

The results of the Company are contained in the Financial Statements on pages 16 to 48. The profit before taxation during the year to 31 December 2020 was £36.7m (2019: £28.4m). Additional explanation is included in the Business Review later in this report.

Financial Position

At the end of the year total assets were £994.7m (2019: £945.9m) with financial investments being £642.2m (2019: £648.7m). Financial investments are fixed rate debt securities and a property fund. Cash and cash equivalents were £71m (2019: £51.9m), reinsurance assets £230.4m (2019: £177.3m) and insurance and other receivables £33.1m (2019: £49.8m).

Total liabilities at the end of the year were £805.9m (2019 : £780.5m) with insurance contract provisions of £648.2m (2019: £676.1m) and loans and borrowings of £42.3m (2019: £42.3m).

Strategic Direction

The Company is an insurer authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. It was established to underwrite Tesco branded car and home insurance policies, introduced to it by Tesco Personal Finance plc. The Company is owned by Ageas (UK) Limited and Tesco Personal Finance plc.

The overall role of the Company is to support the Tesco Personal Finance plc personal lines insurance strategy through innovative underwriting and product initiatives, whilst driving financial returns for the two shareholders by maintaining strong underwriting, risk and financial controls.

In October 2020 Tesco Personal Finance plc ('Tesco Bank') agreed to acquire Ageas (UK) Limited's ('Ageas') 50.1% stake in Tesco Underwriting. Tesco Bank will acquire Ageas's stake in Tesco Underwriting for an estimated total consideration of £104m adjusted for Ageas' part of the change in net asset value at closing. In addition, the reimbursement for their subordinated loan will be paid by Tesco Bank. All three parties are working closely to ensure a smooth transition ahead of the formal change in control. The transaction is expected to close in May 2021 and is subject to approval from the Prudential Regulation Authority (PRA).

The vision for the Company is to be the 'Insurer of choice for Tesco Customers'.

The year end Solvency Capital Requirement (SCR) coverage has decreased during the year to 157.3% (2019: 160.0%). The change in coverage is primarily due to an increase in retained earnings and increase in unrealised gains in fair value of investments offset by a proposed dividend of £20m included in the 2020 Solvency II position as a foreseeable dividend, anticipated to be declared by the Board on 26 March 2021 (2019: Nil).

Business Review

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

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

The Board also uses a number of other key indicators to assess the performance of individual parts of the business, including details on the number of policies underwritten and various performance ratios.

	2020 £m	2019 £m	Change %
Gross premiums written	297.7	310.0	(4.0)

Gross premiums written in 2020 were 4% lower than the 2019 level reflecting the impact of pricing conditions in the market. This has reduced the number of policies underwritten by 0.5%. The Company continues to be a disciplined underwriter with a clear return on capital target set by shareholders and pricing will reflect this. In the current market conditions this has resulted in a reduction in customers and gross premium written. In spite of the Covid-19 pandemic, premiums have been broadly at planned levels.

Strategic Report (continued)

	2020 £m	2019 £m
Profit before taxation	36.7	28.4

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

The performance in the year was strong at £36.7m before taxation and reflected a strong improvement over 2019 result (£28.4m). Reduced claims frequency attributed to the Covid-19 pandemic has had a positive impact on the 2020 result.

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

	2020 %	2019 %	Change %
Operating ratio	83.2	90.8	(7.6)

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

The operating ratio improved against 2019 by 8.4%. The improvement is primarily driven by reduced claims frequency in 2020 due to Covid-19.

	2020 %	2019 %
Return on capital after tax	16.8	13.9

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

The Company reported a profit before income taxes of £36.7m. Covid-19 net benefits resulted in a £21.1m increase in profit. The Company plans to gradually deploy this net benefit into reducing pricing on customer policies. The underlying performance of the motor portfolio showed both capped and large claims at expected levels. Within the home portfolio the current year result was impacted by flood and storm claims in the early part of 2020 as well as adverse experience in fire and subsidence losses.

Principal risks and uncertainties

The Company’s principal risks and uncertainties and the way that these risks are managed are detailed in note 2 to the financial statements. Given the Company's business as a motor and home insurer the main risks it faces relate to insurance, market, credit, liquidity, operational and capital management risks. The procedures to control these risks are embedded into decision making via the Company's risk management framework and are expressed through the Company's risk appetite statements and its risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. During 2020 the Management Risk Committee's reports have been provided to the Board Risk Committee which focuses on consideration of the top risks including climate change. Uncertainties relating to Brexit are described in the Directors' report.

Strategic Report (continued)

Covid-19

In the early part of 2020 the outbreak of the coronavirus in China quickly gained worldwide attention. On 11th March 2020 the World Health Organisation declared a global pandemic for this disease.

In February 2020 TU convened a Covid-19 Core Response team from across the business which reports into the TU Executive Committee twice weekly. The situation has developed rapidly over the past year and TU initially implemented Crisis Management with daily calls and strong focus through the Crisis Management Team. Following several lockdown periods in the past year, at times TU has closed its Reigate office whilst maintaining attendance of a proportion of the staff in the Claims operation in Newcastle in order to maintain claims handling which cannot be undertaken remotely. Business operations are now stable and an executive meeting focussing on ongoing management to the Covid-19 situation is held weekly.

Updates have been communicated with TU staff throughout the past year. The safety and wellbeing of TU staff is the primary focus alongside ensuring that business systems and processes can continue to serve customers through this period.

Strong co-operation continues between TU, TB and Ageas with TU liaison on the TB and Ageas Crisis Management teams.

The key areas of focus for the TU Executive team have been:

- Understanding the dynamic changing advice from the UK Government and Public Health England;
- The alignment to decisions and approach to responses and communications across Tesco Bank and Ageas UK;
- The issue of regular communications to colleagues across the business with advice and guidance as the situation developed;
- The assessment of TU's operational resilience and specifically the operational response required to a series of scenarios; and
- The assessment of the operational resilience of TU's suppliers and partners in the provision of services and support to customers.

As the situation has developed TU continues to monitor the position and take appropriate action through its Crisis Management Team taking contingency actions to protect colleagues whilst continuing to serve customers.

The potential impact on the Company, has been considered in depth over the past year and is not assessed to be a significant risk. For example, following the initial Covid-19 crisis that pushed the TU investment portfolio into a small loss position, portfolio gains have returned and the overall position is a £20m gain (net of tax) which is above the year end 2019 position (c£12m).

Section 172 (1) Statement

The Tesco Underwriting (TU) directors have always been aware of, and attentive to, all their duties and responsibilities. This includes the duty to promote the success of the company for the benefit of its stakeholders as a whole as set out under section 172 of the Companies Act 2006. The TU Board takes this into account when setting and embedding its culture and values in line with its vision to be the 'Insurer of choice for Tesco customers'. The TU Board recognise the long-term success of the Company is only possible through engagement with, and having regard to, the interests of key stakeholders, which for TU includes customers, employees, shareholders, suppliers and the community at large. The effective operation of the governance framework, formalised within the TU Governance Manual, facilitates TU directors in the discharge of their duties, ensuring all stakeholders and impacts on the environment are considered in the decision making of the TU Board and its Committees.

The role of the TU Board is to effectively manage TU's business and exercise control over its business, maintaining a reputation for high standards of business conduct. This is achieved by the TU Board setting the tone from the top, ensuring the direction and performance of the business is aligned to shareholder objectives, and in doing so paying due regard to the interest of all its stakeholders. A range of mechanisms have been established to support directors in the discharge of their duties and further detail has been incorporated within the Stakeholder Engagement statements set out on pages 5-7 of this report. Furthermore, throughout 2021, the TU Board will continue to review and challenge how TU can continue to improve engagement with its stakeholders.

Stakeholder Engagement Statements

Shareholders

Given that TU is jointly owned by Ageas (UK) Limited (Ageas UK) (50.1%) and Tesco Personal Finance plc (49.9%) the Company's purpose and strategy are aligned to those of its shareholders. The role of the Company is to support the Tesco Personal Finance plc (Tesco Bank) personal lines insurance strategy through innovative underwriting and product initiatives, whilst driving financial returns for its two shareholders by maintaining strong underwriting, risk and financial controls. Throughout 2020, TU have continued to work collaboratively with both shareholders ;Tesco Bank provides the Company with IT and management services and Ageas UK provides some claims handling and a range of ancillary services.

Ageas UK is represented on the TU Board by three Ageas UK Executives and one Non-Executive Director. Tesco Bank is represented on the TU Board by two Tesco Bank Executives and one Non-Executive Director.

During 2020, the TU Board having considered the Company would have the appropriate resources to continue to meet debts as they became due, and in recognition of the financial impact of Covid-19, resolved that an interim dividend of £15 million be declared, paid to Ageas UK and Tesco Bank.

With regards the 2021 outlook, the Board has considered the likely consequences of any decisions made in the long term and has had regard to acting fairly between all stakeholders including all of the shareholders. On 14th October 2020, the Company's shareholders, Tesco Bank and Ageas UK announced agreement had been reached for Tesco Bank to acquire Ageas UK's stake in TU, expected to transition in May 2021. TU Management, overseen by the TU Board, have supported programmes established by both shareholders to achieve an effective transition of all services currently supplied to TU by Ageas UK.

Strategic Report (continued)

Customers and Suppliers

Customers are at the heart of the Company's business and it is important to the Company to maintain a high standard of business conduct. Whilst 2020 brought many challenges due to onset of the global pandemic, customer interests remained a key priority for the TU Board, customer experience reports have continued to be provided on a quarterly basis. The TU Board have been kept apprised of actions being taken to support all customers, with 'Little Helps' keeping them mobile and financially stable and ensuring products continue to offer value for money to customers during the exceptional circumstances arising from the pandemic, being a particular area of focus.

At TU, we strive through a customer centric approach to ensure we conclude claims quickly and fairly for our customers to deliver the best possible outcomes. We maintain at all times a keen focus on treating customers fairly and ensure our products provide value for money, our flexible approach to meeting the needs of a diverse customer base, including specific consideration of the needs of vulnerable customers, has ensured we were well placed to respond quickly and meaningfully to the needs of our customers in response to Covid-19 during 2020 and into 2021.

Despite the impact of Covid-19 a number of digital solutions have continued to be progressed to enhance and simplify the end to end customer experience. The development of our digital claims journey under the Customer Experience Programme, has remained on track and progression updates have been provided to the TU Board on a quarterly basis.

We have ensured suppliers who provide services are able to do so without detriment to our customers, employees, community and the environment and we have carried out robust oversight measures to ensure this is always the case. These measures are governed by our Procurement and Supplier Management Framework which includes detail of how we assess supplier performance and ensure their operating standards are robust. These assessments are conducted frequently and reported quarterly to the Board Risk Committee. Whilst some of our suppliers have been adversely impacted by Covid-19, their response to the global pandemic was closely monitored and actively managed.

Employees

The safety and wellbeing of employees during 2020 have been a priority of the TU Board leading an early response to the pandemic . At the start of the pandemic digital solutions were implemented to enable the majority of TU employees to work remotely and the TU Board made the decision not to utilise the Government job retention scheme. The focus has been on ensuring all staff could continue to work safely at the office, if necessary, to deliver essential services to customers, where cleaning and social distancing regimes were implemented, or for the majority of employees; remotely.

TU employees have been kept up to date as the pandemic develops with regular focused communication and a number of support programmes launched to ensure the TU culture was maintained and employee's mental wellbeing was supported. Colleague briefings on strategy and performance were delivered in a virtual format and regular virtual meetings with the Employee forum have continued with senior management, facilitating the escalation and cascade of key messages from and to the TU Executive Committee and the TU Board.

Following the announcement that Tesco Bank were to acquire Ageas UK's stake in TU, TU employees have been kept informed via regular communication and briefings by the senior management and the Employee forum and Consultation Partners were appointed to liaise with colleagues directly in relation to harmonisation of terms and conditions. The Board was kept apprised of the communication plan and progress, including details of the harmonisation of terms and conditions of employment contracts with employees at Tesco Bank and the transition of some employees to Tesco Bank under Transfers Of Undertakings (Protection of Employment) Regulations ('TUPE').

Employees are invited to provide feedback and to actively participate through continued use of engagement surveys. The key themes emanating from the surveys are brought to the attention of the TU Board and resulting actions tracked. During 2020 both the response rate and employee engagement scores continued to be high and employee feedback was incorporated into the ambition for a more flexible future workplace, supporting a blend of office and remote working.

TU has established and promotes a culture where employees have the confidence and ability to raise their concerns. Directors and managers have a responsibility to ensure that mechanisms are in place to encourage such concerns to be raised and any wrongdoing dealt with. The whistleblowers' champion has been apportioned responsibility for the maintenance of the independence, autonomy and effectiveness of TU whistleblowing policies and procedures, and a report to the TU Audit Committee in 2020 confirmed the systems and controls in place were satisfactory. The effectiveness of these controls will continue to be monitored and reported going forward.

Regulator

The Company and the Board maintains an open and constructive dialogue with the PRA and FCA alongside the provision of required reports, for example in relation to Solvency II and through regular supervisory meetings.

Diversity and Inclusion

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

Community

TU has continued to be very active in the community within which it operates despite the context of the pandemic. The Company and the Board supports a “Charity of the Year” as nominated by the employees, which for 2020 was The People’s Kitchen in Newcastle and The Children’s Trust, a national charity, in Reigate. As well as supporting employee fundraising, the Company made donations to these charities recognising the challenges for this sector during the pandemic. In addition, in 2020 TU donated £100k to the Association of British Insurers ('ABI') Covid-19 Support Fund, set up to support some of the people hardest hit by the Covid-19 crisis.

Environment

The Board has also allocated SMF responsibility for managing Climate Change financial risks to its Finance Director. In its supervisory statement PRA SS3/19, together with subsequent regulatory correspondence, the PRA sets out how firms should enhance their approached to managing climate related financial risks. The Company has established a cross functional Climate Change Working Group who have identified a comprehensive set of key climate related financial risks, the details of which was shared with the Board Risk Committee. Several climate financial risks are already managed as part of the existing risk management frameworks, and impact assessments from the Reinsurance and Investment Committees shared with the Board Risk Committee that confirmed climate change was a key consideration for both areas. Specifically during 2020, the decision was taken to update the investment strategy incorporating new investment guidelines to reflect a number of Environmental Social and Governance priorities and that TU would continue to monitor the carbon footprint of the investment portfolio with the intention of setting a target in 2021 to ensure a lower overall carbon footprint, thereby mitigating the risk to value from over-exposure to certain sectors.

The Board is also monitoring the longer-term transition risks arising from the changing Climate relating to the personal lines insurance market.

This report was approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

C Marsh
Secretary

Directors' Report

Position as at 31 December 2020

Shareholders' equity

The profit for the year included within retained earnings was £29.7m (2019: £23.0m). There was an increase in the market value of investments compared to their carrying value that increased the fair value reserve after tax by £8.7m (2019: increase 8.2m). In 2020, a dividend of £15m was paid to shareholders through retained earnings (2019: £31.3m), resulting in an overall increase in shareholders' equity of £23.4m to £188.8m (2019: £165.4m).

Assets

At the end of the year total assets were £994.7m (2019: £945.9m) with financial investments being £642.2m (2019: £648.7m). Financial investments were fixed rate debt securities and a property fund. Cash and cash equivalents were £71.0m (2019: £51.9m), reinsurance assets £230.4m (2019: £177.3m) and insurance and other receivables £33.1m (2019: £49.8m).

Liabilities

Total liabilities at the end of the year were £805.9m (2019 : £780.5m) with insurance contract provisions of £648.2m (2019: £676.1m) and financial liabilities of £42.3m (2019: £42.3m).

Liquidity & Risk

Most of the Company's financial assets are liquid and can be converted to cash in a normal market at short notice. The Company's principal risks and uncertainties are shown in the Strategic Report on page 4.

Solvency

At 31 December 2020 the Company had unaudited Solvency II own funds of £185.9m (2019: £189.7m) compared to a Partial Internal Model (PIM) SCR of £118.2m (2019: £118.5m) and the coverage ratio was 157.3% (2019: 160.0%). The Company made a dividend payment of £15m through retained earnings in the year. The strength of the solvency capital at the year ended 31 December 2020 supports a proposed dividend of £20m to the shareholders subject to Board approval on 26 March 2021.

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

Results and dividends

A profit after taxation of £29.7m (2019:£23.0m) was recorded for 2020. In addition, a dividend of £15m was paid in the period (2019: £31.3m).

Disclosure of information to auditor

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

Creditor payment policy

The Company agrees terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

Employees

The average number of persons employed in the United Kingdom by the Company during the period was 357 (2019: 367). The full time equivalent number of employees adjusted for part time staff was 343 (2019: 348). There was a small decrease in staff numbers during the year with 352 at 31 December 2020 (31 December 2019: 365). The salary costs for 2020 were £17.8m (2019: £17.2m). An analysis of staff numbers is shown in note 25.

Business Ownership

In October 2020 Tesco Personal Finance plc ('Tesco Bank') agreed to acquire Ageas (UK) Limited's ('Ageas') 50.1% stake in Tesco Underwriting. Tesco Bank will acquire Ageas's stake in Tesco Underwriting for an estimated total consideration of £104m adjusted for Ageas'part of the change in net asset value at closing. In addition, the reimbursement for their subordinated loan will be paid by Tesco Bank. All three parties are working closely to ensure a smooth transition ahead of the formal change in control. The transaction is expected to close in May 2021 and is subject to approvals from the Prudential Regulation Authority (PRA).

Brexit

The Company has undertaken an assessment of the impact of the UK leaving the EU. Given that the Company operates exclusively in the UK market it has concluded that the risks for the business (for example in relation to claims costs, a wider economic downturn and investment returns) are akin to those typical of its ongoing operations and, taken overall, are assessed to be limited and manageable within the context of its existing plans, with minimal additional considerations needing to be taken.

Directors' Report (continued)

Climate Change

The approach to managing climate change from a risk perspective is set out on page 6.

Total Co2 emission for TU operations in 2020:

	Total	Utilities	Travel
Co2e tonnes	474.8	454.8	19.9
Co2e tonnes per FTE	1.4	1.3	0.1

The figures represent TU's carbon footprint in our full financial year 2020. The calculations use emission factors from Defra's GHG Conversion Factors for Company Reporting as published by the UK government : https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020.

The total Co2e tonnes per FTE has been assessed to be 1.4 in 2020. This is an assessment of energy usage within the 2 offices in Newcastle and Reigate and business travel. During 2020 office usage and business travel were both limited due to the Covid-19 situation.

The responsibility for managing the financial risks of climate change has been allocated to the Finance Director. A climate change working group including representatives from Underwriting, Claims, Finance and Risk has been established.

The focus is on identifying a comprehensive set of key climate related financial risks.

From an underwriting perspective, controls in relation to exposure from natural catastrophes including flood, rainstorm, windstorm, coastal, rivers are being assessed. Also, TU is considering a defined approach to transition risks as petrol and diesel vehicles are phased out and replaced by electric over the next decade.

The claims team are focussed on third party supplier exposure to climate change risk as well as supply chain costs increasing due to new technology in vehicles.

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

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

Climate change is being considered in risk assessments and reviewed as part of operational resilience planning.

TU has embedded climate change monitoring in governance committees and has considered climate change in the 2021 ORSA scenario analysis.

Further developments relating to climate change are included within the Section 172 report.

Covid-19

Uncertainities relating to coronavirus (Covid-19) are included within the Section 172 report.

Employee involvement

The Company keeps employees up to date on strategy and performance through a variety of channels which includes formal leadership events and regular employee briefings by senior managers. Employees are invited to provide feedback and to actively participate through continued use of engagement surveys, and the Staff Council holds regular discussions with senior management at an organisational and site level. There are a range of technology based communications tools which give employees the opportunity to engage directly with colleagues and managers, creating a two way dialogue and sharing of views and ideas in a transparent and immediate manner.

As part of the wider engagement approach we support various charities, as nominated by our employees. We also extend our activities in our industry and local education communities through engagement with industry bodies at a local level and our continued focus on career development and apprenticeships.

Diversity and Inclusion

The Company is committed to a culture which is inclusive and supports diversity. Recruitment, promotion, career development, selection for training and any other aspects of employee management of all employees are free from discrimination, including on the grounds of gender, ethnicity, disability, age, sexual orientation, marital status and other protected characteristics. The Board have set the policies and standards within which the Company will operate, and our approach to diversity and inclusion is monitored regularly by the Board. The Board places a high emphasis on ensuring the development of diversity across the business and has signed up to the HM Treasury's Women in Finance Charter, and supports various internal initiatives such as the Women in Insurance Programme, and our Diversity and Inclusion Policy, TUEveryone.

Charitable donations

Charitable donations in the period amounted to £13,179 (2019: £2,910). In addition to this, £100,000 was paid to the ABI Covid-19 support fund.

This report was approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

C Marsh
Secretary

Registered Address
Ageas House
Hampshire Corporate Park
Templars Way
Eastleigh
Hampshire
SO53 3YA

Statement of Directors' Responsibilities

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Tesco Underwriting Limited (the 'company') for the year ended 31 December 2020 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, and Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Obtaining an understanding of the impact of, and the directors' response to, COVID-19;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the company's future financial performance;
- Engaging in regular discussions with the directors regarding the status of negotiations in respect of financing options;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Considering the consistency of the directors' forecasts with the evidence obtained within our audit of other areas of the financial statements; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

Key audit matters (Continued)

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Area of focus	How our audit addressed the area of focus

Valuation of insurance contract liabilities
 	
The valuation of the provisions for the settlement of future claims, or insurance contract provisions: gross outstanding claims, involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The insurance contract provisions: gross outstanding claims at 31 December 2020 was £495.8m (see Note 15 of the financial statements).
 	
We have identified that the key drivers of the valuation risk relate to assumptions and judgements used in the range of actuarial techniques applied in estimating the gross outstanding claims, including for significant large loss cases such as those related to bodily injury.
 	
We also considered the appropriateness and consistency of the margin included in addition to management's best estimate as part of the insurance contract provisions: gross outstanding claims.
	Our audit procedures included:
	• Meeting with senior management involved in the reserving process to discuss the reserving methodology, management controls on the relevant models, changes in assumptions from the previous year-end, and questions arising from review of internal and external reserving reports;
	• Assessing the design and implementation of controls around the process in place to determine the insurance contract provisions: gross outstanding claims and testing that key controls are operating effectively;
	• Assessing and documenting the flow of data used in the reserving process;
	• Considering the impact of Covid-19 on frequency and severity of claims; and
	• Challenging actuarial assumptions used individually and in aggregate, by;
	  • Performing re-projections using various actuarial methods to produce a range of reasonable best estimates, as undertaken by our actuarial specialists on selected classes including Motor Third Party Property Damage, Motor Bodily Injury Capped and Motor Excess (lump sum and known PPOs); and
	  • Evaluating the methodology and assumptions selected by management for reserving, including for the consistent application of the margin.
	
	Our Observations
	We found the insurance contract provisions: gross outstanding claims established by the company acceptable.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Our overall materiality was £3.0m.
How we determined it	1% of gross written premiums.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that gross written premium was the most relevant benchmark. We believe that the benchmark of gross written premiums is a fair reflection of revenue from the company's operations.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £2.2m was applied in the audit which represents 75% of overall materiality.
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above 3% of overall materiality, £89k, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company, its environment, controls and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements ; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the risk of fraud and to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements.

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

Auditor's responsibilities for the audit of the financial statements (Continued)

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the company, the insurance industry in which it operates and considered the risk of acts by the company which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and review of minutes of directors' meetings in the year.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements and determined that the principal risks were related to management bias through judgements and assumptions in significant accounting estimates, in particular the valuation of provisions for the settlement of future claims; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 16 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2018 to 31 December 2020.

Non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

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

L Finch
Leanne Finch (Mar 26, 2021 16:29 GMT)

Leanne Finch (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way,
London E1W 1DD

26 March 2021

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Gross premiums written	3	297.7	310.0
Change in the gross provision for unearned premiums	3	1.1	18.7
Gross insurance premium revenue		298.8	328.7
Written premiums ceded to reinsurers	3	(130.8)	(67.4)
Reinsurers' share of change in the provision for unearned premiums	3	31.3	(2.6)
Net insurance premium revenue		199.3	258.7
Investment income	4	12.0	14.5
Other operating income	5	3.1	4.5
Net income		214.4	277.7
Claims and benefits incurred	6	(200.1)	(209.6)
Reinsurers' share of claims and benefits incurred		61.5	19.9
Net policyholder claims and benefits incurred		(138.6)	(189.7)
Net acquisition costs	7	(10.2)	(29.8)
Administration costs	8	(27.1)	(27.7)
Operating profit		38.5	30.5
Finance costs	9	(1.8)	(2.1)
Profit before income tax		36.7	28.4
Income tax	10	(7.0)	(5.4)
Profit for the year		29.7	23.0
Other comprehensive income			
Items which will be reclassified to profit or loss			
Gain/(loss) on available-for-sale financial assets	16	11.0	9.8
Income tax on other comprehensive income	10	(2.3)	(1.7)
Other comprehensive loss, net of tax		8.7	8.2
Total comprehensive income		38.4	31.1

The notes on pages 27 to 48 form an integral part of these financial statements.

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of financial position

As at 31 December 2020

	Note	31 Dec 2020 £m	31 Dec 2019 £m
Assets			
Intangible assets	11	9.7	7.1
Property, plant and equipment	12	0.5	0.7
Deferred acquisition costs	13	7.8	10.4
Reinsurance assets	15	230.4	177.3
Financial investments	16	642.2	648.7
Insurance and other receivables	17	33.1	49.8
Cash and cash equivalents	18	71.0	51.9
Total assets		994.7	945.9
Shareholders' equity			
Share capital	24	129.7	129.7
Retained earnings		38.6	23.9
Fair value reserve		20.5	11.8
Total shareholders' equity		188.8	165.4
Liabilities			
Insurance contract provisions	15	648.2	676.1
Financial liabilities - loans and borrowings	19	42.3	42.3
Reinsurance payables		1.7	1.6
Funds withheld	22	88.7	38.1
Current tax liability	20	0.7	1.2
Deferred tax liability	14	4.5	2.4
Insurance payables, other payables and deferred income	21	19.8	18.8
Total liabilities		805.9	780.5
Total equity and liabilities		994.7	945.9

The notes on pages 27 to 48 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2021 and were signed on its behalf by:

Stephen Grainge

S Kingshott
Director

S Grainge
Director

TESCO UNDERWRITING LIMITED

Registered number 6967289

Statement of changes in equity

For the year ended 31 December 2020

	Share capital £m	Retained earnings £m	Fair value reserve £m	Total £m
Balance at 1 January 2020	129.7	23.9	11.8	165.4
Total comprehensive income for the period				
Profit for the year	-	29.7	-	29.7
Fair value gains relating to available-for-sale financial assets	-	-	8.7	8.7
Total comprehensive income for the period	-	29.7	8.7	38.4
Transactions with owners of the Company				
Dividend Payments	-	(15.0)	-	(15.0)
Transactions with owners of the Company	-	(15.0)	-	(15.0)
Balance at 31 December 2020	129.7	38.6	20.5	188.8

For the year ended 31 December 2019

	Share capital £m	Retained earnings £m	Fair value reserve £m	Total £m
Balance at 1 January 2019	145.7	16.2	3.6	165.5
Total comprehensive income for the period				
Profit for the year	-	23.0	-	23.0
Fair value gains relating to available-for-sale financial	-	-	8.2	8.2
Total comprehensive income for the period	-	23.0	8.2	31.2
Transactions with owners of the Company				
Redemption of share capital	(16.0)	16.0	-	-
Dividend Payments	-	(31.3)	-	(31.3)
Transactions with owners of the Company	(16.0)	(15.3)	-	(31.3)
Balance at 31 December 2019	129.7	23.9	11.8	165.4

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

The notes on pages 27 to 48 form an integral part of these financial statements.

TESCO UNDERWRITING LIMITED
Registered number 6967289

Statement of cash flows
For the year ended 31 December 2020

	Note	2020	2019
		£m	£m
Cash flows from operating activities			
Profit before tax		36.7	28.4
Adjustments for:			
Investment income	4	(12.7)	(13.9)
Finance costs	9	1.8	2.1
Amortisation of intangible assets	11	1.6	1.9
Depreciation of property, plant and equipment	12	0.2	0.3
Amortisation of deferred acquisition costs	7	2.6	8.9
Financial investments non cash movements	16	0.1	2.1
Operating profit before working capital changes		30.3	29.8
(Increase)/decrease in reinsurance assets	15	(53.1)	9.3
Decrease in insurance and other receivables	17	16.7	3.2
Decrease in insurance contract provisions	15	(27.9)	(83.1)
Increase/(decrease) in other payables and deferred income	21	1.1	(1.0)
Increase in reinsurance payables	22	50.8	7.4
Cash flows used in operations		17.9	(34.4)
Interest received	4	11.9	13.1
Dividend Received	4	0.8	0.8
Interest paid	9	(1.8)	(2.2)
Tax paid		(7.6)	(4.7)
Net cash flows from operating activities		21.2	(27.4)
Cash flows from investing activities			
Purchase of financial investments	16	(103.7)	(96.5)
Sale of financial investments	16	120.6	140.0
Purchase of intangible assets	11	(4.2)	(3.4)
Purchase of property, plant and equipment	12	-	0.1
Net cash flow from investing activities		12.7	40.2
Cash flows from financing activities			
Subordinated loan repayment	19	-	(15.7)
Dividend paid		(15.0)	(31.3)
Net cash used in financing activities		(15.0)	(47.0)
Net increase/(decrease) in cash and cash equivalents		18.9	(34.3)
Cash and cash equivalents at 1 January		51.9	86.3
Cash and cash equivalents at 31 December		71.0	51.9
Cash available to the Company	18	71.0	51.9

The notes on pages 27 to 48 form an integral part of these financial statements.

Significant accounting policies

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

The Company is owned by Ageas (UK) Limited and Tesco Personal Finance plc.

The financial statements were authorised for issue by the directors on 26 March 2021.

(a) Statement of compliance

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

(b) Basis of preparation

The Company has prepared the financial statements on a going concern basis. In considering the appropriateness of this assumption the Board has reviewed the Company's projections for the next twelve months from the date of this report and beyond, including cash flow forecasts and regulatory capital surpluses. The director's considerations for the impacts of Covid-19 on the Company, and their conclusion that it is appropriate to prepare the accounts on a going concern basis. Consequently, the directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. SCR coverage at the end of 2020 is 157.3%.

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

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

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

New and amended standards and interpretations

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition, effective 1 January 2020, states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' There has not been a significant impact on the company's financial statements.

Standards issued but not yet effective

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

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

In the context of the deferral of the implementation of IFRS 9, additional disclosures relating to groups of financial assets with contractual cashflows that are solely payments of principal and interest (the SPPI test) and to the credit quality of financial instruments that pass the SPPI test are required during the deferral period, commencing 1 January 2018. Note 2(iii)refers to these SPPI tests.

The following is a list of standards that are in issue and relevant to the Company but are not effective in 2020, and have not yet been adopted by international accounting standards, together with the effective date of application to the Company:

IFRS 17 : Insurance Contracts (effective 1 January 2023).

IFRS 17 issued in 2017 by the International Accounting Standard Board (IASB), will represent the most significant change to international accounting standards in 20 years. In June 2020 the IASB amended IFRS 17 to be effective from annual reporting periods beginning on or after 1 January 2023 together with the fixed expiry date for the optional temporary exemption from applying IFRS 9 granted to insurers. Although early application of IFRS 17 is permitted the Company are planning to adopt in line with the proposed effective date. The Company is assessing the implications of IFRS 17 on its financial statements.

Significant accounting policies

(b) Basis of preparation (continued)

(i) Basis of measurement

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

(ii) Functional and presentation currency

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

(iii) Use of estimates and judgements

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

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

Judgements made by the directors in the application of IFRSs that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in notes 1 and 2.

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

(c) Classification of insurance contracts

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

(d) Recognition and measurement of revenue

Premiums

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

(e) Insurance contracts and reinsurance assets

Claims

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

The provision for outstanding claims represents the Company’s estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding, and presented separately as assets.

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

Significant accounting policies

(e) Insurance contracts and reinsurance assets (continued)

Liability adequacy test (Unexpired risk provision)

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

Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance ceded includes quota share, excess of loss and adverse development cover contracts. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are accounted for as financial instruments.

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

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

For the quota share reinsurance ceded amounts payable for funds withheld net of the associated quota share profit commission is maintained in accordance with contract terms for each underwriting year and a commutation is performed for the purposes of settling the profit commission and funds withheld balance within the terms of the contract 4 years after commencement. For further details on funds withheld see note 22.

Unearned premium provision

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

Deferred acquisition costs

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

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

Other assessments and levies

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

(f) Investment income

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

(g) Expenses

Finance costs

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

Significant accounting policies

(h) Employee benefits

Defined contribution plan

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

Wages, salaries and annual leave

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

(i) Income tax

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

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

Deferred tax is provided in full, using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The following temporary difference is not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

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

Deferred tax assets and liabilities are not discounted.

(j) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation (see below) and impairment losses (see accounting policy (o)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Right of use assets

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

(ii) Depreciation

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

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

The estimated useful lives are as follows:

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

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the statement of comprehensive income.

Significant accounting policies

(k) Intangible assets

Development expenditure

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

(l) Financial investments

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

TU's investment in a property fund was designated on initital recognition as one to be measured at fair value through the profit and loss account. Subsequent to initial recognition, it is remeasured at fair value which is the quoted bid price at the statement of financial position date.

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

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

These investments are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of financial investments are recognised on the trade date, which is when the Company commits to purchase the instrument.

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

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

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

(m) Other receivables

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

(n) Cash and cash equivalents

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

Significant accounting policies

(o) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairments on AFS investment bonds are recognised if there is a significant or prolonged decline in fair value.

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and financial investments that are debt securities, the reversal is recognised in the statement of comprehensive income. For the property fund, the reversal is recognised through the profit and loss account.

(ii) Non-financial assets

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

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

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

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

(p) Financial liabilities

Financial liabilities include payables to related parties and interest-bearing loans and borrowings and also bank overdrafts and other contractual payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the year of the borrowings on an effective interest basis.

The directors have determined that the carrying amounts of bank overdrafts and other payables reasonably approximate their fair values because these liabilities are mostly short term in nature or are repriced frequently.

Significant accounting policies

(q) Derecognition of financial assets and liabilities

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

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

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

(r) Provisions

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

(s) Share capital

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

(t) Dividends

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

Notes to the financial statements

1 Accounting estimates and judgements

The most critical judgements and estimates made by the Company are those regarding reported and unreported losses, including reinsurance recoveries on those losses, and deferred policy acquisition costs.

Outstanding claims and provisions

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

In summary, case reserves for reported losses are established on a case-by-case basis and are based largely on past experience of settlements managed within the Company, as well as market experience on similar claims. The case reserves are set on an undiscounted basis and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as changes in the law and changes in costs relating to settlement.

Technical provisions for losses incurred but not reported as of the statement of financial position date are mostly established on an undiscounted basis. They are estimated based on historical data using various actuarial techniques and statistical modelling methodologies and calculated separately for each line of business underwritten and take into account trends in settlement costs in arriving at the final estimates.

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

For further details on outstanding claims and provisions or loss reserves see note 15.

Deferred acquisition costs

A proportion of the commission expenses and other acquisition costs incurred by the Company in respect of both new and renewal business underwritten in the year are deferred as at the statement of financial position date. Such amounts deferred are then amortised over the estimated remaining period of the policies concerned. The extent to which costs are deferred is dependent on the directors' judgement as regards the level of costs incurred which relate to the business written.

For further details on deferred acquisition costs see note 13.

2 Risk management

Objectives and policies for mitigating business risk

The Company has identified the following risk areas: insurance, market, counterparty default, liquidity, operational, capital management and outsourcing which are aligned with the Company's Risk Framework Policy, which details the procedures in place to manage these exposures. These procedures are embedded in decision making processes and the culture of the business. They include an overall risk management framework together with a set of clearly defined risk policies which articulate the Company’s risk appetite.

The Company also maintains a comprehensive risk register which identifies and articulates the individual risks faced in each area of the business and the controls in place to mitigate these. The Company’s Management Risk Committee meets regularly to review both the risk profile and adherence to the risk framework, including risk appetite and risk policies, to ensure they are up-to-date, reflecting the risks currently facing the business, and that corresponding control issues and risk mitigation actions are being addressed in a timely manner. The Management Risk Committee's reports are provided to the Company's Board Risk Committee and Audit Committee.

(i) Insurance risk

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

(a) Underwriting risk

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

Notes to the financial statements

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(i) Insurance risk (continued)

(a) Underwriting risk (continued)

The Company's objective for underwriting risk is to manage the risks in line with the strategic plan and deliver the required return on capital and ensure that its plans are aligned to the strategies and plans of its distribution channel, i.e. Tesco Personal Finance plc.

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

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys primarily excess of loss (i.e. non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Company's risk appetite. The Company has also purchased Adverse Development Cover (ADC) against the risk of low frequency high impact scenarios. From 2018, the Company entered into a quota share reinsurance treaty in which the Company and the reinsurer share premiums and losses at an agreed percentage for each underwriting year.

Sensitivity analysis of insurance risk

A well designed and executed Stress and Scenario Testing (SST) programme is part of TU's Contingency Planning which is consistent with previous years. The tables below show more detail for the tests that relates to insurance risk with an assessed return period:

Test name (return period)	Description - Insurance Risk Stress	Rationale
Motor Soft Market (1-in-5 Yr)	TU's market competitiveness reduces more than anticipated leading to a contraction in Policies in Force of c.30% over 2021-2023.	To assess the impact of lower profitability from writing lower than expected volumes.
Motor Hard Market (1-in-5 Yr)	TU's market competitiveness improves more than anticipated leading to a growth in Policies in Force of c.20% over 2021-2023.	To assess the new business capital strain from writing higher than expected volumes.
Multiple Weather Events (1-in-200 Yr)	A number of events occurring recurrently over 2021 to 2023 as a result of increasingly aggravating climate changes - each event is below the reinsurance retention, so no recoveries are made.	TU's Catastrophe reinsurance covers up to a 1-in-200 return period. The Non-Life Internal Model shows that multiple smaller events drive the SCR figure.
PPO Severity shock (1-in-30 Yr)	Assume all TU PPO claimants have unimpaired life expectancy. Knock-on impact is that this element of the premium is too low and hence the 2021 Loss Ratio is 3% higher than Plan.	A key assumption in the calculation of the Claims Reserves.
Adverse Large Loss experience (1-in-30 Yr)	Existing BI large loss reserves are insufficient (case reserves run-off neutrally vs. c.20% favourable assumption in ABE). The knock-on impact is that the BI Large loss component of the premium is too low by 20% (relative) and hence the 2021 Loss Ratio is 5% higher than Plan.	A key assumption in the calculation of the Claims Reserves.
Non-Renewal of ADC and Quota Share Reinsurance (1-in-10 Yr)	Significant reserve deterioration (2020 Y/E) 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 1/1/2022.	Non-renewal of the reinsurance covers (particularly the ADC) would lead to a significant increase in the SCR figure.
Ogden Discount Rate change (1-in-10 Yr)	Due to Covid-19, yields on low risk assets are reduced and the outlook for care inflation is potentially higher – leading to external pressure for an early review of Ogden Discount Rate, which leads to it being reduced to -1.75% in 2021	A key driver of the cost of Bodily Injury Claims – the change would impact all open claims.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the degree of concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration or demographic trend. Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims.

2 Risk management (continued)

High-severity, low frequency concentrations

The timing and frequency of high severity events are, by their nature, uncertain. They represent a material risk as the occurrence of such an event would have a significant adverse impact on the Company's cash flows and profitability.

The Company manages these risks by making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that limits the impact of these events. The Company uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

Geographic and demographic concentrations

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

Economic conditions

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

Total aggregate exposure

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

Third party injury claims and credit hire

Since the Covid-19 pandemic, the motor insurance industry has experienced a reduced claims frequency and value of third party injury claims.

These reductions have been driven by several periods of national lockdowns and restrictions reducing the need for non-essential travel which has resulted in reduced frequency of claims and claim related income.

(b) Claims reserving risk

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

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

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

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

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(c) Claims management risk

Claims management risk may arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service, claims fraud, ineffective or inefficient claim processes or excessive costs of handling claims.

The Company's claims handling is partially outsourced to Ageas Services (UK) Limited to handle individual claims on its behalf.

The Company's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of the provision of the service that meets those needs in agreement with its service provider. Customers include both the insured as well as others that believe our insured has breached a duty of care. The Company's philosophy is based upon the following principles:

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

These principles support the Company's objectives to:

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

(d) Reinsurance risk

Reinsurance is placed to reduce the Company's exposure to specific risks, events and accumulations. The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered or by there being gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Company's brokers, and is approved by the Reinsurance Committee and the Board.

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

(ii) Market risk

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

Interest rate risk

The Company's exposure to changes in interest rates is primarily concentrated in its investment portfolio. To mitigate changes in interest rates the Company holds the material proportion of its investments in fixed rate debt securities. It will normally hold these securities to their maturity in line with the investment strategy. This reduces the variation in future cash flows and provides security over future income and redemption values.

Spread risk

The Company is exposed to changes in the market values of debt securities for reasons other than changes in interest rates. This may be due to the credit rating changes, anticipated future interest rate changes, trading performance or market sentiment of the issuer.

The Company mitigates this risk by investing in high quality issuers in line with its investment strategy and normally holding debt securities until their maturity.

(iii) Counterparty default risk

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

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

None of the above are past due or impaired.

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

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(iii) Counterparty default risk (continued)

The table below provides information regarding the credit risk exposure of the Company at 31 December 2020 by classifying assets according to the credit ratings of counterparties. The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

Financial assets

At 31 December 2020			£m			
	AAA	AA	A	BBB	Other	Total
Financial assets recognised through profit and loss	-	-	-	-	18.3	18.3
Available for sale investments	90.2	132.0	274.2	127.5	-	623.9
Cash and cash equivalents	25.4	45.6	-	-	-	71.0
Insurance and other receivables	1.3	1.7	3.2	2.4	24.5	33.1
	116.9	179.3	277.4	129.9	42.8	746.3

At 31 December 2019			£m			
	AAA	AA	A	BBB	Other	Total
Financial assets recognised through profit and loss	-	-	-	-	19.1	19.1
Available for sale investments	111.3	130.2	265.9	122.2	-	629.6
Cash and cash equivalents	25.3	26.6	-	-	-	51.9
Insurance and other receivables	1.4	1.7	3.4	2.7	40.6	49.8
	138.0	158.5	269.3	124.9	59.7	750.4

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

Included in the investments above are bonds of £623.9m (2019: £629.6m) and a property fund of £18.3m (2019: £19.1m). All the bonds are considered to be financial instruments that pass the SPPI test as required by IFRS 9, as described in note (b) of the significant accounting policies. The property fund does not meet the SPPI test and is valued at fair value through the profit and loss account. There are no other financial instruments that do not meet the SPPI test.

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

An analysis of income from available for sale assets and income from other financial assets is shown in note 16.

Agents, brokers and intermediaries

The Company only trades through Tesco Personal Finance plc which is authorised by the PRA and regulated by the FCA and the PRA.

The levels of debt are regularly monitored and appropriate action is taken in respect of slow and non-payment within the terms of credit.

	2020	2020	2019	2019
	£m	%	£m	%
Within terms	4.2	100.0	3.3	100.0
Total	4.2	100.0	3.3	100.0

Reinsurance

The Company is exposed to credit risk through its reinsurance arrangements, where amounts due under a reinsurance contract may not be paid. The Company manages this risk by using only A grade (or better) reinsurers, or group companies supported by parent guarantee. The ratings of reinsurers are monitored by the Reinsurance Committee.

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(iii) Counterparty default risk (continued)

Other financial assets

The credit risk arising from the other financial assets of the Company, comprising cash and cash equivalents, instalments and other receivables, but excluding related party balances, from the default of the counterparty. Default on instalment payments results in the Company cancelling the underlying policy in order to reduce its exposure.

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

An analysis of insurance and other receivables is shown in note 17.

(iv) Liquidity risk

The Company is exposed to liquidity risks arising from daily calls on its cash resources, notably from claims arising on its insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

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

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

The following table shows information about the estimated timing of the net cash flows based on the claims liabilities at 31 December 2020 and contractual maturity profile for the other financial liabilities as at 31 December 2020. The estimated phasing of the claims liabilities is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below. The Company undertakes liquidity stress tests to assess the impact on the cash flow from these events.

Maturity profile of financial assets 2020

			£m		
	Within 1 year	2 -5 years	5 years and above	No term	Total
Reinsurance assets	46.7	59.7	124.0	-	230.4
Financial assets where change in fair value is recognised in the profit and loss account	-	-	-	18.3	18.3
Available for sale investments	90.1	343.5	190.3	-	623.9
Insurance and other receivables	26.3	6.7	0.1	-	33.1
Cash and cash equivalents	71.0	-	-	-	71.0
	234.1	409.9	314.4	18.3	976.7

Maturity profile of financial assets 2019

			£m		
	Within 1 year	2 -5 years	5 years and above	No term	Total
Reinsurance assets	5.9	30.4	141.0	-	177.3
Financial assets where change in fair value is recognised in the profit and loss account	-	-	-	19.1	19.1
Available-for-sale investments	97.4	365.8	166.3	-	629.5
Insurance and other receivables	38.1	11.5	0.2	-	49.8
Cash and cash equivalents	51.9	-	-	-	51.9
	193.3	407.6	307.5	19.1	927.6

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(iv) Liquidity risk (continued)

Maturity profile of financial liabilities 2020

	£m				
	Within 1 year	2 -5 years	5 years and above	No term	Total
Insurance contract provisions	189.9	223.6	234.7	-	648.2
Loans and borrowings	-	-	-	42.3	42.3
Reinsurance payables and funds withheld	1.7	88.7	-	-	90.4
Lease Liability	0.2	0.3	-	-	0.5
	191.8	312.6	234.7	42.3	781.4

Maturity profile of financial liabilities 2019

	£m				
	Within 1 year	2 -5 years	5 years and above	No term	Total
Insurance contract provisions	202.2	239.9	234.0	-	676.1
Loans and borrowings	-	-	-	42.3	42.3
Reinsurance payables and funds withheld	1.6	38.1	-	-	39.7
Lease Liability	0.2	0.5	-	-	0.7
	204.0	278.5	234.0	42.3	758.8

Claims liabilities - Estimated payment profile

Payment period	2020 £m	2020 %	2019 £m	2019 %
0 - 1 year	94.8	19.1%	108.6	20.8%
2 - 5 years	171.3	34.6%	187.8	35.9%
5 years and above	229.7	46.3%	226.2	43.3%
Total	495.8	100.0%	522.6	100.0%

An analysis of insurance contract provisions is shown in note 15 (iii).

(v) Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It is diverse in nature and permeates all business activities but remains a distinct form of risk. Operational risk includes for example, information technology, people, strategy, business continuity, regulatory, legal and financial crime. Operational risk incidents can lead to additional exposure to other risk types resulting from an inadequate or inappropriate control environment.

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

(vi) Capital management

Aims of capital management policy

The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders. This includes the capital required to support the Solvency Risk Appetite as specified in the Company's Risk Appetite Policy in full compliance with the requirements of the PRA. Under the Own Risk and Solvency Assessment (ORSA) process the Company also carries out a regular programme of stress and scenario testing to assess the impact on potential future capital requirements.

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

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(vi) Capital management (continued)

Definitions of capital management (and supporting terms)

Capital management is the collection of processes and activities undertaken to provide sufficient capital to enable the organisation to meet its liabilities and ultimately ensure its survival, particularly in case of losses arising from adverse events.

Capital management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital, and the ongoing monitoring of capital against business requirements, as well as the assessments required by the PRA under the Solvency II regime, including the minimum capital requirement (MCR) and solvency capital requirement (SCR), assessed using its approved Solvency II partial internal model (PIM) and Solvency II standard formula (SF). During 2020 the Company has principally measured its available capital against the PIM required capital.

At the end of 2019, the Company established a project to apply to the PRA for its own PIM. This was approved by the PRA in 2020 and will be used by the Company after leaving the Ageas Group when TB acquires 100% ownership.

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

Approach to capital management

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

A key factor in the formulation of the Strategic Plan is the ORSA process which covers the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure.

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

- capital required to support the planned growth in new business and renewal premiums and profit targets;
- the required rate of return on capital employed;
- the required dividend; and
- PRA solvency capital requirements based on the Company's approved Partial Internal Model from 1 January 2016.

The Company's available capital is compared to its risk appetite above the Solvency II PIM SCR. At 31 December 2020 the Company had unaudited Solvency II own funds of £185.9m post proposed dividend of £20m (2019: £189.7m) against unaudited PIM SCR of £118.2m (2019: £118.5m). The coverage ratio is 157.3% post dividend (2019: 160.0%). The Company made a dividend payment of £15m through retained earnings.

Sensitivity to key business drivers

The impact of the changes in key business drivers is each assumed to be a discrete change. All other factors will be unchanged.

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

Interest yields sensitivity

The Company will be exposed to the impact of interest yield changes on its financial assets and liabilities. If interest yields fall there would be a reduction in income on short-term cash balances and an increase in the market value of fixed interest debt securities. If interest yields rise there would be an increase in income on short-term cash balances and a decrease in the market value of fixed interest debt securities. As the Company will normally hold its fixed interest debt securities for an indefinite period, it will neither benefit from an increase nor suffer any reduction in its future cash flow. It will either benefit from an increase or suffer a reduction in the yield on any future fixed interest debt securities purchased from surplus funds and the maturity of current investments.

Forecasting the impact on the market values of fixed interest debt securities will not be linear due to other factors including credit rating movement, anticipation of future interest rate changes, trading performance or market sentiment of the issuers.

Notes to the financial statements

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(vi) Capital management (continued)

Interest yields 2020	2020 £m	2020 £m	2020 £m	2020 £m
Interest yield change	+ 0.5%	+ 0.25%	- 0.25%	- 0.5%
Increase/(reduction) in profit	0.6	0.3	(0.3)	(0.6)
Increase/(decrease) in net assets	0.8	0.6	(1.1)	(2.7)
Total estimated increase/(decrease) in net assets excluding tax impact	1.4	0.9	(1.4)	(3.3)

Interest yields 2019	2019 £m	2019 £m	2019 £m	2019 £m
Interest yield change	+ 0.5%	+ 0.25%	- 0.25%	- 0.5%
Increase/(reduction) in profit	0.6	0.3	(0.3)	(0.6)
(Decrease)/increase in net assets	(3.2)	(1.6)	1.5	2.9
Total estimated (decrease)/increase in net assets excluding tax impact	(2.6)	(1.3)	1.2	2.3

Expenses increase by 5.0%

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

	2020 £m	2019 £m
Total reduction in profit before tax	2.5	3.4
Total reduction in net assets before tax	2.5	3.4

Gross loss ratio increases by 1.0%

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

	2020 £m	2019 £m
Total reduction in profit before tax	3.0	3.3
Total reduction in net assets before tax	3.0	3.3

(vii) Outsourcing risk

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

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

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

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

Notes to the financial statements

2 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(vi) Capital management (continued)

(viii) Brexit risk

The Company has undertaken an assessment of the impact of the UK leaving the EU. Given that the Company operates exclusively in the UK market it has concluded that the risks for the business (for example in relation to claims costs, a wider economic downturn and investment returns) are akin to those typical of its ongoing operations and, taken overall, are assessed to be limited and manageable within the context of its existing plans.

The potential financial impact of the various Brexit scenarios is assessed as being appropriately covered by the business stress and scenario tests from the Own Risks Solvency Assessment. These tests concluded that the specific risks associated with Brexit are also limited and manageable.

(ix) Climate Change Risk

The Company has considered risks associated with climate change. This is considered in full within the Environment section of the section 172 (1) statement.

(x) Covid-19 Risk

The Company has considered risks associated with Covid-19. This is considered in full within the Covid-19 section of the section 172 (1) statement.

3 Premium and ceded premium

	2020 £m	2019 £m
Gross premium written	297.7	310.0
Change in the gross provision for unearned premium	1.1	18.7
Gross insurance premium revenue	298.8	328.7
Less: Written premium ceded to reinsurers	(130.8)	(67.4)
Reinsurers' share of change in the provision for unearned premium	31.3	(2.6)
Ceded earned premium	(99.5)	(70.0)
Net insurance premium revenue	199.3	258.7

4 Investment income

	2020 £m	2019 £m
Interest income:		
- Financial investments interest income	11.7	12.6
- Loans and receivables interest income	0.2	0.5
Dividend income from financial assets through profit and loss account	0.8	0.8
Fair value losses on financial assets at FVPL (designated as such on initial recognition)	(0.9)	(0.9)
Realised gains and losses from available-for-sale assets	0.2	1.5
Total investment income	12.0	14.5

5 Other operating income

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

6 Claims and benefits incurred

	2020 £m	2019 £m
Current year claims paid	(86.6)	(14.5)
Change in prior years claims provisions	30.8	(23.0)
Claims handling costs	(11.6)	(11.3)
Additional liabilities arising during the year	(132.7)	(160.8)
Total claims and benefits incurred	(200.1)	(209.6)

7 Acquisition costs

	2020 £m	2019 £m
Commission expenses payable	(2.7)	(16.2)
Other acquisition costs payable	(4.9)	(4.7)
Changes in deferred acquisition costs	(2.6)	(8.9)
Total acquisition costs	(10.2)	(29.8)

Notes to the financial statements

8 Operating expenses

	2020 £m	2019 £m
Depreciation and amortisation	(1.8)	(2.4)
Employee expense and benefits:		
- Wages and salaries	(15.3)	(14.8)
- Compulsory social security contributions	(1.6)	(1.5)
- Contributions to defined contribution plans	(0.9)	(0.9)
Total staff costs	(17.8)	(17.2)
Auditor's remuneration:		
- Fees payable to the Company's auditor for the audit of the Company's annual accounts *	(0.2)	(0.2)
- Fees payable to the Company's auditor for other services:		
Other assurance services*	-	-
Other services pursuant to legislation	-	-
Solvency II fees *	-	-
Other operating expenses	(7.3)	(7.9)
Total operating expenses	(27.1)	(27.7)

* The Company paid its auditor £249,000 (2019: £215,800) in total including £195,600 (2019: £163,200) for the audit of these financial statements, £40,000 (2019: £39,400) for the audit of the relevant elements of the Solvency and Financial Condition Report, and £53,400 (2019: £52,600) for reviews of interim financial information in the year.

9 Finance costs

	2020 £m	2019 £m
Interest expense	(1.8)	(2.1)
Total finance costs	(1.8)	(2.1)

10 Income tax

Analysis of tax charge in the period

	2020 £m	2019 £m
Current tax		
UK corporation tax on (profits)/losses of the period	(7.0)	(5.4)
Prior year under provision in respect of current tax	-	-
	(7.0)	(5.4)
Deferred tax		
Origination and reversal of timing differences	-	-
Prior year under provision in respect of deferred tax	-	-
	-	-
Tax on profit on ordinary activities	(7.0)	(5.4)
Profit on ordinary activities before tax	36.7	28.4
Profit on ordinary activities at the standard rate of corporation tax in the UK at 19% (2019: 19%)	(7.0)	(5.4)
Expenses not deductible for tax purposes	-	-
Transfer pricing adjustment	-	-
Effect of variable tax rates	-	-
Prior year (over)/under provision in respect of current tax	-	-
Prior year under provision in respect of deferred tax	-	-
Tax on profit on ordinary activities	(7.0)	(5.4)

Statement of other comprehensive income

	2020 £m	2019 £m
Current tax recognised through OCI	(0.1)	(0.2)
Deferred tax recognised through OCI	(2.2)	(1.5)
Total tax recognised directly in equity	(2.3)	(1.7)

11 Intangible assets

	IT software £m
Cost	
Balance at 1 January 2019	25.9
Additions	3.4
Balance at 31 December 2019	29.3
Additions	4.2
Balance at 31 December 2020	33.5
Amortisation and impairment losses	
Balance at 1 January 2019	20.3
Amortisation charge for the year	1.9
Balance at 31 December 2019	22.2
Amortisation charge for the year	1.6
Balance at 31 December 2020	23.8
Carrying amounts	
Balance at 31 December 2019	7.1
Balance at 31 December 2020	9.7

12 Property, plant and equipment

	Right of Use Asset: Lease £m	Furniture £m	IT equipment £m	Total £m
Cost				
Balance at 1 January 2019	-	2.1	0.3	2.4
Acquisitions/(Disposals)	0.8	-	-	0.8
Balance at 31 December 2019	0.8	2.1	0.3	3.2
Acquisitions/(Disposals)	-	-	-	-
Balance at 31 December 2020	0.8	2.1	0.3	3.2
Depreciation and impairment losses				
Balance at 1 January 2019	-	1.9	0.3	2.2
Depreciation charge for the year	0.2	0.1	-	0.3
Disposals	-	-	-	-
Balance at 31 December 2019	0.2	2.0	0.3	2.5
Depreciation charge for the year	0.1	0.1	-	0.2
Disposals	-	-	-	-
Balance at 31 December 2020	0.3	2.1	0.3	2.7
Carrying amounts				
Balance at 31 December 2019	0.6	0.1	-	0.7
Balance at 31 December 2020	0.5	-	-	0.5

The Company applied IFRS 16 from 1 January 2019 onwards using the modified retrospective approach.

The Company leases office premises under an operating lease. The original lease agreement was from 2012, with option to extend from 2017. This option to renew was taken up for 5 years from 2017 - 2022

The Company recognised a right-of-use asset and a lease liability from 1 January 2019. The right-of-use asset is initially measured at this date taking the cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an estimate of costs to restore the building to the condition at the start of the lease.

The right-of-use asset was subsequently depreciated using the straight line method from the commencement date to the end of the lease term. The interest expense charged on lease liabilities during the year was £16,148.

The lease liability was initially measured at the present value of the lease payments using the Company's incremental borrowing rate of 2.25% which is included within Insurance payables, other payables and deferred Income (Note 21).

Notes to the financial statements

13 Deferred acquisition costs

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

	2020 £m	2019 £m
Balance at 1 January	10.4	19.3
Acquisition costs incurred in period	7.6	20.8
Amortisation charged to income	(10.2)	(29.7)
Balance at 31 December	7.8	10.4

14 Deferred tax

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19%, rather than reducing to 17%, as previously enacted. This new law was substantively enacted on 17 March 2020.

Deferred taxes at the balance sheet date are measured at the enacted rate at the end of the reporting period of 19%.

Subsequent to the balance sheet date, it was announced in the Budget on 3 March 2021 the rate of corporation tax would be increased to 25% with effect from 1 April 2023. The effect of this change would be to increase the deferred tax liability at 31 December 2020 by up to c. £1.5m. Legislation is intended to be included in the Finance Bill 2021 to effect this change.

Deferred tax (liabilities) and assets are attributable to the following:	2020 £m	2019 £m
Unwind of loss on assets held as AFS through Other Comprehensive Income (OCI)	-	(0.1)
Unrealised loss on assets held as AFS through OCI	(4.7)	(2.4)
Other temporary differences	0.2	0.1
Deferred tax (liability)/asset	(4.5)	(2.4)

There are no unrecognised deferred tax assets or liabilities.

Movement in temporary differences during the year	2020 £m	2019 £m
Balance at 1 January	(2.4)	(0.8)
Unwind of loss on assets held as AFS through OCI	0.1	0.1
Unrealised loss/(gain) on assets held as AFS through OCI	(2.3)	(1.7)
Other temporary differences	0.1	(0.0)
Balance at 31 December	(4.5)	(2.4)

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

Notes to the financial statements

15 Insurance contract provisions and reinsurance assets

	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross* £m	2019 Reinsurance* £m	2019 Net* £m
Unearned premiums	152.4	(62.4)	90.0	153.5	(31.0)	122.5
Claims reported by policy holders	516.2	(241.2)	275.0	655.3	(279.7)	375.6
Claims incurred but not reported	(20.4)	73.2	52.8	(132.7)	133.4	0.7
Total insurance contract provisions	648.2	(230.4)	417.8	676.1	(177.3)	498.8
Current	189.8	(46.7)	143.1	202.1	(6.0)	196.1
Non current	458.4	(183.7)	274.7	474.0	(171.3)	302.7
	648.2	(230.4)	417.8	676.1	(177.3)	498.8

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

(i) Analysis of movements in insurance provisions

	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross* £m	2019 Reinsurance* £m	2019 Net* £m
Balance at 1 January	676.1	(177.3)	498.8	759.2	(186.6)	572.6
Claims paid/recovered from reinsurers	(204.4)	40.1	(164.3)	(258.9)	26.7	(232.2)
Movement in claims incurred but not reported	109.9	(60.1)	49.8	(38.8)	12.0	(26.8)
Claims reported in the period	67.6	(1.8)	65.8	233.2	(32.0)	201.2
Change in provision for unearned premiums	(1.0)	(31.3)	(32.3)	(18.6)	2.6	(16.0)
Balance at 31 December	648.2	(230.4)	417.8	676.1	(177.3)	498.8

* The detail in the note has been restated to reflect a net £0.9m reclassification between claims reported by policyholders and claims incurred but not reported. There has been no impact on total insurance contract provisions.

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

	2020 £m	2019 £m
Balance at 1 January	153.5	172.2
Premiums written during the year	297.7	310.0
Less: premiums earned during the year	(298.8)	(328.7)
Balance at 31 December	152.4	153.5

(iii) Analysis of movements in outstanding claims

	2020 £m	2019 £m
Gross outstanding claims		
Balance at 1 January	522.7	587.0
Current year claims	243.2	317.4
Change in prior year claims	(54.5)	(111.8)
Current year claims paid	(98.2)	(136.0)
Prior year claims paid	(117.4)	(133.9)
Balance at 31 December	495.8	522.7
Salvage and subrogation recoveries (note 17)		
Balance at 1 January	27.2	31.0
Current year claims	12.4	20.6
Change in prior year claims	(23.6)	(24.4)
Balance at 31 December	16.0	27.2
Gross claims outstanding net of recoveries		
Balance at 1 January	495.5	556.0
Current year claims	230.8	296.9
Change in prior year claims	(30.8)	(87.3)
Current year claims paid	(98.2)	(136.1)
Prior year claims paid	(117.5)	(134.0)
Balance at 31 December	479.8	495.5

15 Insurance contract provisions and reinsurance assets (continued)

(iv) Process used to determine the assumptions

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

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

The cost of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks.

The key methods are:

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

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

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

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

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Company is covered by a variety of excess of loss reinsurance programmes. The methods used by the Company take account of historic data, specific details for individual large claims and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

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

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

Covid-19 impact

Since the Covid-19 pandemic, TU has experienced a reduced claims frequency and value of third party injury claims. These reductions have been driven by several periods of national lockdowns and restrictions reducing the need for non-essential travel which has resulted in reduced frequency of claims and claim related income.

15 Insurance contract provisions and reinsurance assets (continued)

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

	Accident year						
	2011	2012	2013	2014	2015	2016	Total 2011-2016
	£m	£m	£m	£m	£m	£m	£m
Estimate of gross ultimate claims costs:							
at end of accident year	322.9	529.8	390.6	349.3	327.1	370.7	
one year later	312.1	534.4	388.4	352.7	343.2	372.1	
two years later	297.6	522.5	372.6	379.1	343.1	335.0	
three years later	295.5	517.3	382.8	352.9	322.7	324.5	
four years later	292.5	526.8	362.5	359.7	311.5	322.9	
five years later	293.4	517.7	360.3	346.9	305.0		
six years later	292.2	520.3	360.8	349.9			
seven years later	292.7	518.9	360.3				
eight years later	294.3	526.8					
nine years later	295.1						
Current estimate of cumulative claims	295.1	526.8	360.3	349.9	305.0	322.9	2,160.0
Cumulative payments to date	(287.4)	(498.5)	(347.7)	(326.5)	(287.3)	(276.6)	(2,024.0)
Current gross claims provisions	7.7	28.3	12.6	23.4	17.7	46.3	136.0

	Total 2011-2016	2017	2018	2019	2020	Total
	£m	£m	£m	£m		£m
Estimate of gross ultimate claims costs:						
at end of accident year		304.3	317.4	282.2	219.7	
one year later		298.8	296.7	288.1		
two years later		269.3	267.9			
three years later		258.3				
four years later						
five years later						
six years later						
seven years later						
eight years later						
nine years later						
Current estimate of cumulative claims	2,160.0	258.3	267.9	288.1	219.7	3,194.0
Cumulative payments to date	(2,024.0)	(231.6)	(207.3)	(169.0)	(87.1)	(2,719.0)
Current gross claims provisions	136.0	26.7	60.6	119.1	132.6	475.0
Provision for claims handling costs						4.8
Total gross claims outstanding provisions						479.8

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

	Accident year						
	2011	2012	2013	2014	2015	2016	Total 2011-2016
	£m	£m	£m	£m	£m		£m
Estimate of net ultimate claims costs:							
at end of accident year	315.3	515.5	378.8	336.0	319.5	310.5	
one year later	305.3	521.9	380.3	338.2	327.2	319.2	
two years later	293.9	512.4	367.9	348.9	330.7	302.0	
three years later	292.6	506.6	371.5	342.6	314.8	291.7	
four years later	289.9	505.4	358.9	339.1	305.8	292.5	
five years later	290.2	500.3	355.2	338.0	300.7		
six years later	289.1	503.6	356.2	339.9			
seven years later	289.0	503.3	355.1				
eight years later	290.6	506.5					
nine years later	291.2						
Current estimate of cumulative claims	291.2	506.5	355.1	339.9	300.7	292.5	2,085.9
Cumulative payments to date	(285.2)	(494.8)	(347.3)	(322.1)	(285.0)	(270.6)	(2,005.0)
Current net claims provisions	6.0	11.7	7.8	17.8	15.7	21.9	80.9

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

	Total 2011-2016	2017	2018	2019	2020	Total
			Accident year			
	£m	£m	£m	£m		£m
Estimate of net ultimate claims costs:						
at end of accident year		275.9	258.9	235.6	143.9	
one year later		269.6	259.2	254.7		
two years later		251.9	233.4			
three years later		241.5				
four years later						
five years later						
six years later						
Current estimate of cumulative claims	2,085.9	241.5	233.4	254.7	143.9	2,959.4
Cumulative payments to date	(2,005.0)	(223.2)	(197.7)	(168.3)	(58.3)	(2,652.5)
Current net claims provisions	80.9	18.3	35.7	86.4	85.6	306.9
Provision for claims handling costs						4.8
Total net claims outstanding provisions						311.7

16 Financial investments

	2020 £m	2019 £m
Financial assets at fair value through profit and loss		
Property Fund	18.3	19.1
Available-for-sale investments		
Debt securities - fixed rate		
Supranational / Agency bonds	81.8	133.5
Corporate bonds	542.1	496.1
Total financial investments	642.2	648.7

The movements in financial investments are as follows:

	AFS 2020 £m	FVPL 2020 £m	Total 2020 £m	AFS 2019 £m	FVPL 2019 £m	Total 2019 £m
Balance at 1 January	629.6	19.1	**648.7**	679.6	5.4	**685.0**
Additions	103.8	-	**103.8**	82.4	14.2	**96.6**
Sales and redemptions	(120.6)	-	**(120.6)**	(140.1)	-	**(140.1)**
Fair value unrealised gains and losses - AFS assets	11.0	-	**11.0**	9.8	-	**9.8**
Fair value through profit and loss gains and losses	-	(0.8)	**(0.8)**	-	(0.5)	**(0.5)**
Amortisation of premiums and discounts	0.1	-	**0.1**	(2.1)	-	**(2.1)**
Balance at 31 December	623.9	18.3	**642.2**	629.6	19.1	**648.7**

As at 31 December 2020 the current portion of financial investments available for sale is £90.1m (2019: £97.4m) and the non-current portion is £533.8m (2019: £532.2m).

As at 31 December 2020 the property investment where fair value is through the profit and loss account is non-current 2020: £18.3m (2019: £19.1m).

The effective interest rate at the statement of financial position date on sterling investments is 1.87% (2019: 1.97%).

During the year £0.2m (2019: £1.1m) of available-for-sale debt securities has been reclassified from previously unrecognised gains or losses within OCI to profit or loss on disposal.

16 Financial investments (continued)

Valuation of financial investments

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs other than quoted prices included within Level 1 either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. The category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit and loss				
Property Fund	-	18.3	-	18.3
Available-for-sale investments				
Debt securities - fixed rate	-	623.9	-	623.9
Total financial investments	-	642.2	-	642.2

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit and loss				
Property Fund	-	19.1	-	19.1
Available-for-sale investments				
Debt securities - fixed rate	-	629.6	-	629.6
Total financial investments	-	648.7	-	648.7

The Company does not have direct exposure to sovereign debt other than to the UK government and indirect exposure is carefully managed through conservative investment guidelines. Level 2 investments are valued via quoted prices in markets which are considered less than active.

There have been no transfers between levels during the year.

17 Insurance and other receivables

	2020 £m	2019 £m
Receivables arising from insurance contracts: reinsurers	0.8	1.3
Amounts due from group undertakings	4.8	3.3
Salvage and subrogation recoveries	16.0	27.2
Other receivables and prepayments	2.3	8.0
Accrued interest income	8.6	9.0
Accrued dividend income	0.2	0.2
Deferred other charges	0.4	0.8
Total insurance and other receivables	33.1	49.8
Current	26.3	38.1
Non current	6.8	11.7
	33.1	49.8

Amounts due from group undertakings relates to premiums paid by policyholders to Tesco Personal Finance plc which have yet to be passed to the Company as well as subrogation income due from Ageas.

Notes to the financial statements

18 Cash and cash equivalents

	2020	2019
	£m	£m
Cash at bank	17.8	20.7
Cash equivalents	53.2	31.2
Cash and cash equivalents	71.0	51.9

Cash equivalents include liquidity funds of £25.4m (2019: 25.3m) and custodian funds of £27.8m (2019:£5.9m). The effective interest rate at 31 December 2020 on short term bank deposits and liquidity funds was 0.3% (2019: 0.4%), with an average maturity of one day.

19 Financial liabilities - loans and borrowings

	2020	2019
	£m	£m
Non-current liabilities		
Subordinated Debt	42.3	42.3
Total loans and borrowings	42.3	42.3

The subordinated debt bears interest at 3.5% plus the LIBOR rate on the first day of the interest period on £28m and 4.5% plus the LIBOR rate on the first day of the interest period on £14.3m. Interest is paid quarterly. The loan has no stated maturity.

20 Current tax liability

The current tax liability of £0.7m (2019: liability £1.2m) represents the amount of income taxes payable in respect of the current year.

21 Insurance payables, other payables and deferred income

	2020	2019
	£m	£m
Amounts due to group undertakings	1.2	0.5
Direct insurance contract payables	0.1	-
Other payables and accrued expenses	8.9	8.5
Lease liability	0.5	0.7
IPT, VAT and other taxes payable	9.1	9.1
Total insurance payables, other payables and deferred income	19.8	18.8

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

22 Funds withheld

From the beginning of 2018 the Company has put in place a Quota Share (QS) contract as part of its overall reinsurance protection strategy. A funds withheld account is maintained which represents the balance due to reinsurers in accordance with the terms of this reinsurance agreement. The balance is made up of QS funds withheld of £96.0m (2019: £48.8m) and a profit commission of (£7.3m) (2019: (£10.7m)) (which is part of the contract, but is a separate 'payable').

23 Pension scheme

The Company participates in the Ageas Group Personal Pension Scheme in respect of all staff; it is a defined contribution scheme. The assets of the scheme are held by Scottish Widows. The pension cost in respect of members of this fund represents contributions payable by the Company to the fund and amounted to £903,432 (2019: £911,002).

The Company accounts for pension costs in accordance with IAS 19, Employment Benefits.

Notes to the financial statements

24 Share capital

In millions of shares	2020	2019
Ordinary shares in issue at 31 December	129.7	129.7
Ordinary shares authorised at 31 December	500	500

At 31 December 2020, the issued share capital comprised 64,704,166 ordinary A shares and 64,963,501 ordinary B shares. Both A and B ordinary shares have a par value of £1 and were fully paid up at the end of the year.

The Company redeemed £16m of its issued share capital in 2019 comprising 7,984,000 ordinary A shares of £1 each and 8,016,000 ordinary B shares of £1 each. This was a non-cash redemption funded through a solvency statement capital reduction.

The beneficial owners of A and B ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The authorised share capital comprised 249,999,999 A ordinary shares of £1 each and 250,000,001 B ordinary shares of £1 each.

25 Staff numbers

The total number of persons employed by the Company (including executive directors) at the year-end, analysed by category, was as follows:

	2020	2019
Business acquisition	53	47
Claims handling	228	250
Administration	71	68
	352	365

The full time equivalent number of employees was as follows:

	2020	2019
Business acquisition	52	46
Claims handling	217	239
Administration	68	65
	337	350

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

	2020	2019
Total number of employees	357	367
Full time equivalent number of employees	343	348

Notes to the financial statements

26 Related party transactions

Identity of related parties

The Company has a related party relationship with its directors. The directors include the key management of the Company. There were no balances outstanding with the directors at year-end. There were no transactions entered into with the directors during 2020 and 2019 other than the remuneration disclosed in Note 27.

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

	2020 Costs £m	2020 Balances £m	2019 Costs £m	2019 Balances £m
Ageas (UK) Limited	8.3	1.3	10.5	0.2
Ageas (UK) Limited - subordinated loan	0.9	21.3	1.1	21.3
Tesco Personal Finance plc	19.9	(4.4)	23.5	(2.1)
Tesco Personal Finance plc - subordinated loan	0.9	21.3	1.1	21.3
	30.0	39.5	36.2	40.7

The Company's immediate parent undertaking is Ageas (UK) Limited which provides the Company with claims handling and management services. Ageas (UK) Limited funded the investment in systems and set-up costs which have been passed to the Company subsequently.

The Company is jointly owned by Tesco Personal Finance plc which provides the Company with IT and management services. Transactions with Tesco Personal Finance plc are recorded as Other Related Party Transactions.

Both Ageas (UK) Limited and Tesco Personal Finance plc have provided the Company with subordinated loans.

27 Directors' remuneration

The directors' compensations are as follows:

	2020 £m	2019 £m
Short-term employee benefits	1.8	1.6
Post-employment benefits (see note below)	-	-
	1.8	1.6

The aggregate of emoluments of the highest paid director was £722,642, with no post-employment benefits (2019: £600,061, with no post-employment benefits). Post-employment benefits for all Directors in 2020 amounted to £4,170 (2019: £4,259).

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

28 Ownership

The Company is owned by Ageas (UK) Limited (50.1%), a company registered in England and Wales, whose registered address is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA and Tesco Personal Finance plc (49.9%), a company registered in Scotland, whose registered address is 2 South Gyle Crescent, Edinburgh, EH12 9FQ. The ultimate holding company of Ageas (UK) Limited is ageas SA/NV incorporated in Belgium. The ultimate holding company of Tesco Personal Finance plc is Tesco plc incorporated in England and Wales.

In October 2020 Tesco personal finance plc (’Tesco Bank’) agreed to acquire Ageas (UK) Limited's (‘Ageas’) 50.1% stake in Tesco Underwriting. Tesco Bank will acquire Ageas's stake in Tesco Underwriting for an estimated total consideration of £104m adjusted for Ageas's part of the change in the net asset value at closing. In addition Ageas will receive reimbursement for their subordinated debt loan of £21m. There will effectively be no impact on TU's capital structure following the change. All three parties are working closely to ensure a smooth transition ahead of the formal change in control. The transaction is expected to close in May 2021 and is subject to approvals from the Prudential Regulation Authority (PRA).

Notes to the financial statements

29 Subsequent events

The strength of the solvency capital at the year ended 31 December 2020 supports a proposed dividend of £20m through retained earnings payable to the shareholders subject to Board approval on 26th March 2021.