Gresham Insurance Company Limited

Registered in England No. 110410

Annual Report and Financial Statements 2022

Contents

Directors and officer

Directors

J C Holliday
T J Latter
J Marsh
C Moran
A Winslow

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
Undershaft
London
EC3P 3DQ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

8 Surrey Street
Norwich
NR1 3NG

Company number

Registered in England no. 110410

Other information

Gresham Insurance Company Limited ("the Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

The Company is a member of the Aviva plc group of companies ("the Group").

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2022.

Review of the Company's business

Principal activities

The principal activity of the Company is the transaction of general insurance business, predominantly household, in the United Kingdom ("UK") through a business arrangement with Barclays Bank plc.

Significant events

During 2022 global markets have experienced significant turmoil. Despite this, the impact on the Company is not considered to be significant given that the company underwrites personal household business, and benefits from a 100% quota share reinsurance arrangement with its parent company, Aviva Insurance Limited ("AIL").

The Company's balance sheet exposure and solvency position has been continually reviewed during the year. At 31 December 2022 the Company had strong solvency levels and expects to continue to meet its capital requirements.

Financial position and performance

The financial position of the Company at 31 December 2022 , with net assets of £15,074 thousand, is shown in the statement of financial position on page 24, with the trading results shown in the income statement on page 22 and the statement of cash flows on page 25.

The profit after tax for the year was £3,128 thousand (2021: £1,577 thousand), with the main year on year movements relating to £677 thousand improved investment income, and £1,622 thousand lower operating expenses, as set out in the Income statement on page 22. As described in note 23(a)(i), the Company has a 100% quota share reinsurance arrangement (with the exception of levy expenses) with its parent company, AIL.
Gross written premiums decreased by 14% in 2022 (2021: 5% decrease) due to a highly competitive home insurance market.

Section 172 Statement

The Directors report here on how they have discharged their duties under Section 172 (s.172) of the Companies Act 2006.

S172 sets out the matters to which the directors must have regard to in performing their duty to promote the success of the Company for the benefit of its shareholders which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that the Directors' obligations to its shareholders, customers and other stakeholders are met. The Board monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements and is committed to acting if our businesses should fall short of the standards expected.

The Board will sometimes engage directly with certain stakeholders on certain issues, however due to the size and distribution of our stakeholders and of the Company, stakeholder engagement often takes place at an operational level. The Board considers and discusses information from the Company's management team to help it understand the stakeholder interests and to ensure they are carefully considered as part of the Board's decision-making process. Through review of reports relating to strategy, financial and operational performance, key risk and legal and regulatory compliance, the Board is able to maintain an overview of engagement with stakeholders and other relevant factors which enables the Directors to comply with their legal duty under S172.

The Board is also focused on the wider social context within which our businesses operate, including those issues related to climate change and sustainability which are of fundamental importance to the planet's well-being.

The Company's culture

The Company's culture is shaped, in conjunction with its parent company, Aviva Insurance Limited, and its ultimate shareholder Aviva plc by a clearly defined purpose – with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. The Company looks to build relationships with all its stakeholders based on openness and transparency and by valuing diversity and inclusivity in the workplace and beyond

Key strategic decisions in 2022

For each matter that comes before the Board, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

During the year, the Board approved no payment to its parent company (2021: approved payment of £4,700 thousand).

The Directors considered all relevant matters set out under the Companies Act 2006 concerning the payment of dividends, including reviewing the Company's distributable reserves and its ability to pay its debts as they fall due, having regard to the entirety of the Company's business and the actual and contingent liabilities.

Strategic report (continued)

Stakeholder engagement

The table below sets out the Board's approach to stakeholder engagement during 2022:

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Employees	Our people's well-being and commitment to serving our customers is essential for our long-term success.	- The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them. - The Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys. - The Group carries out a comprehensive global employee engagement survey each year, and the results are considered by the Board in the context of the Company's culture, values and behaviours. The actions to continually improve the results are discussed and agreed. - The Company's people share in the businesses' success as shareholders through membership of the Group's global share plans.
Customers	Understanding what's important to our customers is key to our long-term success.	- The Board receives regular reporting on customer outcomes and strategic initiatives throughout the year. - The Board closely monitors customer metrics and engages with the leadership team to understand the issues if performance does not meet customers' expectations. Gresham's parent entity, AIL, is supported by a Conduct Committee to enable it to monitor customer metrics, and subsequently engage with the senior Management to address any issues that may arise from customer complaints, customer feedback and our approach to act in customers bests interests or to treat customers fairly. The Gresham Board can escalate any matters it feels necessary to the Conduct Committee for further scrutiny. - The Board continues to monitor IT performance to ensure consistent service for our customers. - The Company maintains measures to support customers who are experiencing financial hardship.
Suppliers	We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries.	- The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. - All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual and brand damage caused by *inadequate oversight or supplier failure.* - An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards without business and also among our suppliers. We inform all of our suppliers, brokers and other business introducers of our Business Ethics Code and ask them to agree to abide by our Third Party Business Code of Behaviour, which details our commitments and expectations as a trusted business partner. - The Board Reviews the actions Group has taken to prevent modern slavery and associated practices in any part of our supply chain and approves the Aviva Group Modern Slavery Act statement each year. - In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets standards for high payment practices. The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided at our premises in the UK.
Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships. As a major insurance company we are fully engaged in building resilience against the global impact of climate change.	- Our Board supports the community activities of the Aviva Group including the wellbeing proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support colleagues to volunteer in their communities. - Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As publicly announced by the Group on 1 March 2021, the Company is committed to the Group's long-term strategy to reach net zero by 2040 and to have Net Zero carbon emissions from its own operations by 2030. To support achieving this target the Company has defined a climate risk appetite and risk preferences.
Shareholders	Our retail and institutional shareholders are the ultimate owners of the Company.	- The Company's shareholder is Aviva Insurance Limited. Any matters requiring escalation are escalated by the Board through the Chair to its parent.
Regulators	As an insurance company, we are subject to financial services regulations and approvals in all the markets we operate in.	- As a dual regulated entity under the Senior Manager's Certification Regime, the Company is required to produce a Management Responsibilities Map and this is shared with the Regulators on a quarterly basis. - The Gresham Board engages with the Regulators as appropriate. - Throughout 2022 the Gresham Board had oversight of the Company's compliance with the incoming FCA Pricing practices regulation. Compliance with the regulation was achieved on time.

Strategic report (continued)

Future outlook

The strategic direction of the Company is set by the directors of the Company. During January 2023, the Company has entered into a contractual agreement with its distribution partner Barclays Bank UK plc that will result in the Company terminating the current business arrangement on a target date in the third quarter of 2023 and acquiring renewal rights to in-force UK household insurance policies in return for an upfront payment to the distribution partner later in 2023. This payment, which will be determined with reference to the number of in force policies at that date, will be funded via capital injection from the parent. Brand migration of these policies from Barclays to Aviva will happen on the acquisition date, with no further new business acquisition into Gresham. The principal activity of the Company going forward will therefore be to administer and manage the in-force UK household insurance policies.

The Company is well positioned to compete in its key markets against the ongoing backdrop of regulatory reform and competitive market conditions.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 22 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- General Insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Climate change: potentially resulting in higher than expect weather-related claims (including business continuity claims), inaccurate pricing of general insurance risk, reputational impact of not being seen as a responsible steward/investor, as well as adversely impacting economic growth and investment markets. This also includes risks for our investments relating to the impact of the transition to a lower carbon economy and litigation risk where we provide insurance cover.

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

- Solvency II capital surplus;
- gross written premiums;
- increase/(decrease) in gross written premiums;
- combined operating ratio ("COR") - this comprises the sum of the following ratios:
    - gross incurred claims to gross earned premiums;
    - gross earned commission to gross earned premiums; and
    - gross earned expenses to gross earned premiums.

	2022	2021
Capital Metrics		
Solvency II capital surplus £'000	**11,361**	9,414
Financial Performance Metrics		
Gross written premiums £'000	**101,824**	118,346
Decrease in gross written premiums	**(14)%**	(5)%
Combined operating ratio (COR)	**96 %**	**87 %**

The decrease in gross written premiums is explained in "Financial position and performance" above.

The gross incurred claims, gross earned commission and gross earned expenses ratios are calculated as incurred claims, earned commissions and earned expenses, expressed as a percentage of gross earned premiums. COR is equal to the sum of these three ratios. The claims, commissions and expenses included in the COR excludes the cost of £nil thousand (2021: £1,950 thousand) of corporate costs and £2,188 thousand relating to other non-underwriting costs (2021: £2,055 thousand).

The COR increased by 9pp in 2022. This has arisen from an increase in gross claims, partially mitigated by a corresponding decrease in profit commission.

Non-financial indicators

The Company is considered to have no non-financial KPIs as it has no employees and environmental matters are monitored for the Group as a whole.

On behalf of the Board on 6 April 2023

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J C Holliday
Director
06 April 2023

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2022.

Directors

The current directors, except as noted, and those in office during the year, are as follows:

T J Latter
J Marsh (appointed 10 November 2022)
A Winslow (appointed 1 December 2022)
C Moran (appointed 16 March 2023)
G J Hemming (resigned 25 November 2022)
D W Kelly (resigned 10 January 2023)
J C Holliday (appointed 27 March 2023)

Company Secretary

Aviva Company Secretarial Services Limited.

Dividends

No interim dividend was paid during the year (*2021*: £4,700 thousand). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2022 (*2021*: £nil).

Going concern

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future to meet its obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Important events since the financial year end

Details of significant post balance sheet events that have occurred subsequent to 31 December 2022 are disclosed in note 24.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 22 on risk management.

Employees

The Company has no employees. All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited ("AES"). Disclosures relating to employees are made in the annual report and financial statements of AES.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's external auditors, PricewaterhouseCoopers LLP, is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

Under the Competition and Markets Authority Regulations, the Company is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but Covid-19 restrictions caused delays and Aviva sought a two year extension from the FRC which was granted. Following a full and rigorous competitive tender process, which was overseen by the Company's Audit Committee, the selection of Ernst & Young LLP from the year ending 31 December 2024 was approved by the Group Board. PricewaterhouseCoopers LLP will continue in its role and, subject to reappointment by the Company's shareholders at the 2023 Annual General Meeting, will undertake the audit for the financial year ending 31 December 2023.

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulation.

Directors' report (continued)

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards. Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

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

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

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

On behalf of the Board on 6 April 2023

J C Holliday
Director
06 April 2023

Independent auditors' report to the members of Gresham Insurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Gresham Insurance Company Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements 2022 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2022; the income statement, the statement of cash flows and the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the board of directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- Using the output of our risk assessment, we scoped our audit based on materiality over each financial statement line item.

Key audit matters

- Valuation of the provision for claims incurred but not reported ('IBNR') reserves

Materiality

- Overall materiality: £1,100,000 (2021: £1,218,000) based on the amount that would change the Combined Operating Ratio ('COR') by 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £825,000 (2021: £913,700).

Independent auditors' report to the members of Gresham Insurance Company Limited

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The key audit matter below is consistent with last year.

Key audit matter	How our audit addressed the key audit matter

Valuation of the provision for claims incurred but not reported ('IBNR') reserves
Refer to item H in the Accounting policies and to note 14 to the Company's financial statements for disclosures of related policies and balances.
Claims IBNR reserves (a subset of "Insurance liabilities") represent a significant accounting estimate in the financial statements.
As at 31 December 2022, the value of the Company's claims IBNR reserves are £14,169 thousand.
Key areas of focus this year were:
• The methodologies and assumptions used in estimating the costs of claims for general insurance products, in particular for those claims which can take a long time to settle and where the amounts concerned can be large;
• The underlying volatility attached to estimates for the larger classes of business such as Personal Household, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR; and
• The magnitude of uncertainty in respect of rising inflation in claims costs and its impact on assumptions adopted in the determination of claims IBNR.
	In performing our audit work over the valuation of claims IBNR reserves we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:
	• Developing independent point estimates for certain larger or higher risk classes of reserves (covering the majority of the balance), as at 30 September 2022 and performing roll-forward testing to 31 December 2022. This includes selecting our own assumptions for inflation. Finally, we compared our estimates to those booked by the management to form part of our determination as to whether the overall IBNR reserves represent a reasonable estimate;
	• For PPOs, we tested the methodology and assumptions used by management to derive the gross claims IBNR reserves and assess whether these produced reasonable estimates based on the underlying facts and circumstances; and
	• Performing key indicator testing over the remaining classes of business to ascertain the reasonableness of the gross and net of reinsurance claims IBNR reserves.
	In performing the above, we have also considered and tested the following:
	• The internal control environment in place over claims IBNR reserves including:
	  o Governance control activities; and
	  o Control activities supporting key data used in the estimation process.
	• The underlying relevant data (including but not limited to claims case estimates and claims paid) to relevant evidence;
	• Examined prior year development of previous estimates;
	• Management's assessment of estimation uncertainty;
	• Considered whether any of our audit procedures gave rise to an indication of management bias in the estimates.
	Based on the work performed we found that the claims IBNR reserves were supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates. We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment.

Independent auditors' report to the members of Gresham Insurance Company Limited

In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

The impact of climate risk on our audit

As part of our audit we made enquiries of management (both within and outside of the Company's finance function) to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements outside of weather related insurance contract liabilities. The uncertainties presented in estimating insurance contract liabilities, which include weather related claims, were addressed as part of the work set out in our key audit matters section.

Materiality

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 in aggregate 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 company materiality	£1,100,000 (2021: £1,218,000).
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by 1%, excluding the effect of the internal quota share contract
Rationale for benchmark applied	COR is a key performance related benchmark used by the directors and its shareholder to monitor performance of the business. We have excluded the impact of the quota share contract with Aviva Insurance Limited (AIL). This is because Gresham is almost fully reinsured by its parent, and therefore it is the 'gross' position that is of most relevance and interest i.e. reflects the core activity of the Company

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £825,000 (2021: £913,700) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the board of directors that we would report to them misstatements identified during our audit above £55,000 (2021: £60,900) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Review of Directors' going concern assessment;
- Assessment of the reasonableness of Directors' assumptions; and
- Considered management's assessment of the regulatory Solvency coverage and liquidity position in management's future forecast.

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Independent auditors' report to the members of Gresham Insurance Company Limited

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Auditors' 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 auditors' 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 industry, we identified that the principal risks of non-compliance with laws and regulations related to to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate reported results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Making enquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations;
- Reading relevant minutes, including those of the Board of Directors to identify any non-compliance;
- Identifying and testing journal entries meeting specified criteria considered to be unusual or indicative of potential fraud;
- Evaluating management's controls designed to prevent and detect irregularities; and
- Testing the appropriateness of key accounting estimates made by management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the board of directors, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2012 to 31 December 2022.

Adam Beasant

Adam Beasant (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
06-04-2022

Accounting policies

The Company, is a private company limited by shares incorporated and domiciled in the United Kingdom ("UK"). Its principal activity is the transaction of general insurance business in the UK.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006. On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, this has no impact on recognition, measurement or disclosure in the period as report as a result of the change in framework. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, and financial liabilities at fair value through profit or loss.

The financial statements have been prepared on the going concern basis as explained in the director's report on page 7.

In accordance with *IFRS 4 Insurance Contracts*, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy D.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ("£000").

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2022. The amendments have been issued and endorsed by the UK and do not have a significant impact on the Company's consolidated financial statements.

(i) Amendments to IAS 37 Provisions: Onerous Contracts - Cost of Fulfilling a Contract (published by the IASB in May 2020).

(ii) Annual improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (published by the IASB in May 2020).

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts. Amendments to the standard were published in June 2020 and December 2021 (Initial Application of IFRS 17 and IFRS 9 - Comparative Information). In May 2022, the UK endorsed both IFRS 17 and the amendments, all of which apply to annual reporting periods beginning on or after 1 January 2023. IFRS 17 replaces IFRS 4 *Insurance Contracts*, which was issued in 2005. In contrast to the requirements of IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to accounting for insurance contracts.

The Company is implementing IFRS 17 retrospectively as of 1 January 2023. The opening balance sheet date for comparative information is 1 January 2022, which is also the transition date.

The Company is due to implement IFRS 17 retrospectively as at 1 January 2023. The opening balance sheet date for comparative information is 1 January 2022, which is also known as the transition date.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. It introduces a model that measures groups of contracts based on the present value of future cash flows with an explicit risk adjustment for non-financial risk (the fulfilment cash flows); and, for certain contract groups, a contractual service margin (CSM), representing the unearned profit to be recognised in profit or loss over the service period (coverage period). Losses on contracts that are onerous at inception are recognised immediately.

The core of IFRS 17 is the general measurement model (GMM), supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach (VFA)), and a simplified approach (the premium allocation approach (PAA)) for short-duration contracts. The Company has no contracts under the VFA and the majority of its contracts are measured using PAA.

The application of IFRS 17 significantly impacts the measurement and presentation of the Company's insurance and reinsurance contracts. IFRS 17 features the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts. The financial impact of measurement changes for the majority of non-life insurance contracts is not material, however there will be significant changes to presentation and disclosures.

(a) IFRS 17 Measurement Models

The two applicable models apply to the Company as follows:

Model	Applicable business
GMM	• Reinsurance contracts held by the Company that are not eligible for PAA, being: (a) an internal quota share reinsurance with the parent company and (b) an internal reinsurance contract with a fellow group company related to structured settlements, which is an adverse deviation cover ('ADC') contract
PAA	• Short duration general insurance contracts • All other reinsurance contracts held

Accounting policies (continued)

Under each measurement model insurance contract liabilities are measured as the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC represents the obligation under the insurance contract for insured events that have not yet occurred i.e., the obligation that relates to the unexpired portion of the coverage period, including the CSM, which is applicable to contracts measured on the GMM basis. The LIC reflects the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have already occurred but for which claims have not been reported. The key features of each measurement model are set out below.

i. GMM

The GMM is the default IFRS 17 measurement model. The fulfilment cash flows comprise the present value of future cash flows within the boundary of the contract, discounted at current rates, and an explicit risk adjustment for non-financial risk.

At inception, a CSM is recognised for each new group of contracts which represents the unearned profit to be recognised over the coverage period of the contract. Except for reinsurance contracts held, losses on groups of contracts that are onerous at inception are recognised immediately.

The CSM is subsequently remeasured for changes in the fulfilment cash flows relating to non-financial risk, applying locked in financial assumptions. Interest is accreted on the CSM using the locked-in discount rate and the CSM is amortised over the coverage period of the contract. The coverage period is determined based on the insurance service provided to customers. Losses on groups of contracts that are profitable at inception but subsequently become onerous, are recognised immediately.

In contrast to insurance contracts, the CSM for groups of reinsurance contracts held can be an asset or liability. If reinsurance is in place when underlying groups of insurance contracts become onerous the reinsurance CSM recognised is adjusted to offset the gross losses arising. Where the net cost of purchasing reinsurance contracts held relates to events that occurred prior to purchase (for example adverse development cover) no CSM is recognised, and the net cost is recognised immediately in the income statement.

ii. PAA

The PAA is a simplified measurement model which can be applied to all short duration contracts and to longer duration contracts that meet PAA eligibility criteria. It is applied to all of the Company's insurance contracts and the majority of reinsurance contracts held which meet the Company's eligibility criteria. The exceptions to this are intercompany reinsurance contracts held.

The LRC is measured as the amount of premium received net of acquisition cash flows, less the amount of premiums and acquisition cash flows that have been recognised in profit or loss over the expired portion of the coverage period. Premium receipts and acquisition cashflows are recognised in profit or loss over the life of the contract, based on the expected timing of incurred claims. In almost all circumstances, the expected timing of incurred claims does not differ significantly from the passage of time and a straight-line earning pattern is being used. This approach is similar to the Company's previous approach for measuring non-life insurance contracts under IFRS 4.

If facts and circumstances indicate that a group of contracts may be onerous, the LRC is measured using GMM principles and losses for onerous contracts are recognised immediately in the income statement.

For most contracts applying PAA, the measurement of the LIC aligns to the GMM, with an explicit risk adjustment for non-financial risk, and discounting applied to expected future cash-flows.

(b) Significant accounting policies, judgements and estimates

The implementation of IFRS 17 will require the Company to implement new accounting policies, replacing those previously applied under IFRS 4, and make estimates and assumptions that will affect items reported in the income statement and statement of financial position. The significant accounting policies, judgements and estimates that will be applied by the Company on transition to IFRS 17 are summarised below.

i. Choice of measurement model

PAA eligibility

All of the Company's direct general insurance business has a duration of less than one year and is automatically eligible for the PAA model.

The Company has two reinsurance contracts that are not eligible for PAA as noted above; all other reinsurance contracts have a duration of less than one year and are automatically eligible for the PAA model.

ii. Level of aggregation

IFRS 17 specifies the unit of account is a group of contracts and provides guidance on the level at which insurance contracts can be aggregated into groups for measurement purposes. Profitability is assessed for each group of insurance contracts applying PAA to identify onerous contract groups. Discrete CSM's are determined for each group of insurance contracts applying GMM. Groups of insurance contracts have been determined by identifying portfolios of insurance contracts, comprising contracts subject to similar risks that are managed together, and dividing each portfolio into annual cohorts by year of issue. Each annual cohort is then further subdivided into three groups based on the profitability of contracts determined at initial recognition and comprising:

- contracts that are onerous;
- contracts that have no significant possibility of becoming onerous; (based on the probability that changes in assumptions would result in contracts becoming onerous); and
- all remaining contracts.

The Company has not identified any insurance contract groups that have no significant possibility of becoming onerous.

Reinsurance contracts held are also subdivided into three profitability groups, determined by reference to net gains/losses on initial recognition, and comprising:

- contracts that have a net gain at initial recognition;
- contracts that have no significant possibility of a net gain arising subsequently; and
- all remaining contracts.

The Company has not identified any reinsurance contract groups that have no significant possibility of a net gain.

The approach to profitability grouping makes use of sets of contracts. Where it can be demonstrated that all contracts within a set are sufficiently homogeneous, they are allocated to the same profitability group without performing an individual contract assessment.

For contracts measured under the PAA, IFRS 17 permits a simplification whereby contract groups are assumed not to be onerous unless facts and circumstances indicate otherwise. The Company has used internal management information to identify facts and circumstances that may indicate that a group is onerous.

iii. Estimate of future cash flows

The estimate of future cash flows is assessed at the level of profitability groups and represents the best estimate of the Company's cost to fulfil a contract incorporating current estimates of non-financial assumptions. The estimate allows for all the cash inflows and outflows expected to occur within the contract boundary. Cash flows are modelled separately for gross and reinsurance contracts.

Principal non-financial assumptions

Principal non-financial assumptions used in the calculation of insurance and reinsurance fulfilment cashflows use past claims experience to project future claims (estimated using a range of standard actuarial claims projection techniques). Expenses must be directly attributable to fulfilling Insurance contracts, including an allocation of overheads to the extent that they can be allocated to groups of contracts in a systematic and rational way.

iv. Financial assumptions

Discount rates

Discounting is applied to the estimate of future cash flows. The Company uses a bottom-up discount rate for all non-life insurance contracts.

Bottom-up Discount rates

The discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium').

The illiquidity premium is determined as a percentage of the current spread over the risk-free yield on an index of covered bonds. The percentage applied reflects the liquidity characteristics of the liabilities including the propensity and ability of policyholders to lapse or surrender their contracts; for example, 100% for periodical payment orders where surrenders are not possible with a lower percentage applied for other types of business that are considered partially liquid.

Inflation assumptions

Future inflation assumptions are treated as a financial assumption when applied to claims payments that are directly linked to an inflation index.

Presentation of financial assumption changes

The impact of changes in financial assumptions can be presented in the income statement or in the statement of comprehensive income as a matter of accounting policy choice. The Company has elected to recognise these impacts in the income statement, consistent with the approach to the presentation of fair value movements on assets in accordance with IFRS 9, thus eliminating accounting mismatches.

v. Risk Adjustment

The risk adjustment reflects the compensation required by the Company to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. The calculation of the risk adjustment is calibrated to the Company's pricing and capital allocation framework, leveraging the Solvency II view of non-financial risk, considering a lifetime view, and including diversification between risks.

vi. CSM

The CSM represents a liability for unearned profit measured at inception and recognised in the income statement over the life of the contract as insurance and investment related services are provided to the customer. The amount of CSM amortisation recognised in profit or loss each year is determined by considering, for each group of contracts, coverage units that reflect the quantity of the benefits provided in each period and the expected coverage period.

Coverage units for reinsurance contracts held are typically consistent with the underlying gross contracts, adjusted for differences in the services provided. Coverage units for adverse development cover reinsurance are based upon the settlement profile of the underlying claims reinsured under the relevant contract.

vii. Insurance acquisition cashflows

Insurance acquisition cashflows are initially deferred on the balance sheet as an insurance acquisition cashflow asset and then allocated against groups of insurance contracts to which they are directly attributable. For contract groups applying PAA, the Company has chosen not to apply an exemption to recognise insurance acquisition cashflows as an expense at the point they are incurred.

Where insurance acquisition cashflows are allocated to contract groups applying GMM, they are included within the measurement of the CSM and recognised in the income statement over the period which services are provided to the customer. Insurance acquisition cashflows allocated to contract groups applying PAA are recognised in the income statement over the life of the contract based on the expected timing of incurred claims.

Insurance acquisition cashflow assets are assessed for impairment where facts and circumstances indicate that they may be impaired. The Company uses data on customer retention rates and the profitability of products to identify such facts and circumstances.

(c) IFRS 17 transition approach

Changes in accounting policies resulting from the implementation of IFRS 17 must be applied using the Fully Retrospective Approach (FRA) where practicable, measuring all insurance and reinsurance contracts at the date of transition as if the standard had always applied. Where FRA is not practicable for a particular group of insurance contracts there is a choice to apply the Modified Retrospective Approach (MRA) to the extent that reasonable and supportable information exists, or the Fair Value Approach (FVA).

For business in scope of the PAA the FRA has been used. For reinsurance contracts held that are in scope of the GMM, the FRA has been used for business written since 2016. For equivalent contracts written prior to this date the FVA has been applied as the risk adjustment is considered indeterminable without the benefit of hindsight due to the multiple views of risk that were reported at the time.

Accounting policies (continued)

Application of the FVA

Under the FVA the CSM recognised at the transition date is determined as the fair value of the portfolio of contracts at the transition date less the fulfilment cash flows at the transition date. Unlike the FRA no pre-transition information is required to calculate the FVA CSM.

The Company has only applied FVA to reinsurance contracts reinsuring the adverse development of incurred claims and which are measured using the GMM, for which the net cost of the reinsurance is required to be recognised within the Income statement immediately, without recognising a CSM balance. For such contracts, their measurement upon transition Is comprised only of their discounted future cashflows and the risk adjustment.

(d) Financial impacts on transition to IFRS 17

On adoption of IFRS 17, the impact on the Company's net asset value at the transition date of 1 January 2022 is in the course of being determined. The drivers of differences between IFRS 4 and IFRS 17 net asset values include the following:

Drivers	Description
IFRS 4 margins	Margins included in the IFRS 4 measurement of insurance contract liabilities are excluded from the IFRS 17 fulfilment cash flows, as the liabilities are measured on a best estimate basis with a separate explicit adjustment for non-financial risk.
Differences in the valuation of future cash flows	The primary differences in measurement of the future cash flows is the introduction of discounting for all non-life insurance business (under IFRS 4 only longer duration claims are discounted).
Removal of unearned premium asset on reinsurance of incurred claims	Under IFRS 17, the unearned premium asset recognised on the reinsurance of structured settlements under IFRS 4 is eliminated and recognised in the income statement.
Risk Adjustment	The risk adjustment is an explicit allowance for non-financial risk recognised under IFRS 17, replacing the IFRS 4 margins.
Contractual Service Margin	For certain reinsurance contracts held by the Company, a Contractual Service Margin will be recognised to represent the unearned cost of the reinsurance contracts held. This will be recognised in profit or loss over the coverage period in line with the service provided. There will not be a direct offset between the reinsurance contracts held and the underlying reinsured business due to differences in measurement models applied. At transition, the value of the Contractual Service Margin is not material to the Company's profit or loss.
Change in deferred tax due to change in net assets	Taxable profits are generally based on an accounting profit and the adoption of IFRS 17 will impact current tax liabilities. The principles of deferred tax mean that the total tax (current and deferred) remains aligned to the reported profits. The change in net assets on adoption of IFRS 17 will give rise to a deferred tax asset or liability as tax will become due from or payable on the decrease or increase recognised, which reflect losses or profits that would have emerged later under IFRS 4.

At this stage the impacts of IFRS 17 on the income statement and the statement of financial position at 31 December 2022 cannot be reliably estimated pending full implementation and testing of systems, including the operational effectiveness of internal control processes. The Company's IFRS 17 programme will conclude in 2023.

IFRS 17 will have no impact on the Company's Solvency II performance measures or financial targets.

(ii) *IFRS 9, Financial Instruments*

In September 2018, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. In December 2020, the EU endorsed the IASB's Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9. This extends the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 from 1 January 2021 until 1 January 2023, to align the effective dates of IFRS 9 Financial Instruments with IFRS 17 Insurance contracts.

The carrying amount of the Company's liabilities connected with insurance are significant when compared to its total liabilities and exceed 85% of the carrying amount of the Company's total liabilities. At 31 December 2022 the Company's total liabilities were £230,424 thousand and liabilities connected with insurance in the statement of financial position at this date primarily included insurance liabilities within the scope of IFRS 4 (£99,157 thousand), payables and other financial liabilities which arise in the course of writing insurance business (£80,138 thousand less bank overdrafts £1,541 thousand and amounts due to other group companies £2,820 thousand), and other liabilities which arise in the course of writing insurance business (reinsurers share of deferred acquisition costs £16,602 thousand thousand plus other insurance related amounts £3,229 thousand). As such, the Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. Liabilities connected with insurance in the statement of financial position primarily include liabilities arising from contracts within the scope of IFRS 4, and tax liabilities and payables arising in the course of writing insurance business. The Company has however been required to apply the additional disclosure requirements of IFRS 9 which are set out in note 8.

IFRS9 incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The impact of the adoption of IFRS 9 on the Company's financial statements will be dependent on the interaction with the new insurance contracts standard, IFRS 17. Under IFRS 9, entities have the option to restate prior periods on transition. The Company will elect to restate comparatives in line with the IFRS 17 approach for restatement. We have assessed the interaction of IFRS 9 with IFRS 17, and intend to continue to apply the Company's

Accounting policies (continued)

current policy of measuring the majority of its financial instruments at fair value through profit or loss, hence we do not expect any significant measurement differences on adoption of IFRS 9. There will be changes to presentation and disclosures, including reflecting the business model assessment required for classification of financial investments under IFRS 9. IFRS 9 has been endorsed.

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(iii) Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(iv) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(v) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Published by the IASB in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(vi) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, including those judgements involving estimation.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those estimates considered particularly susceptible to changes in assumptions, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance include the discount rates used in determining latent claim and structured settlements liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	H	14
Impairment of financial investments	Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value.	K	9
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits.	N	11
Contingent liabilities	When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	P	19

During the year management reassessed the critical accounting policies estimates previously provided and, based on their assessment of qualitative and quantitative risk factors, resolved that no change was required.

(C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

Accounting policies (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(D) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Contracts that transfer financial risks, but not significant insurance risk are classified as investment contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly.

(E) Premiums earned

General insurance written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with incidence of risk. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(F) Other operating income

Other operating income consists primarily of commission revenue for successful customer introductions, which is recognised as the services are provided.

(G) Net investment income

Investment income consists of interest for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on investments held at fair value through profit or loss (as defined in policy K). Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(H) Insurance contract liabilities

Claims

General insurance incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 14.

Provisions for claims that are settled on an annuity type basis (such as structured settlements) are discounted, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 14.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Accounting policies (continued)

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

(I) Reinsurance

The Company cedes reinsurance in the normal course of business. The cost of reinsurance is earned over the risk profile of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

(J) Derecognition and offset of financial assets and financial 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;
- 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 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.

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

(K) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

In general, the "other than trading" category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

(L) Receivables

Receivables, including inter-company loans, are recognised initially at cost, being fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

(M) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at cost, being fair value and are subsequently measured at amortised cost using the effective interest rate method.

(N) Deferred acquisition costs

Costs relating to the acquisition of new insurance business are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and treated as a separate liability. Acquisitions costs deferred in the period include profit commission costs payable on an earned basis so are deferred and amortised in the same period.

Accounting policies (continued)

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

(O) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(P) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(Q) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. Deferred tax related to any fair value re-measurement of available for sale investments, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(R) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Income statement
For the year ended 31 December 2022

	Note	2022	2021
		£'000	£'000
Income	1		
Gross written premiums		**101,824**	118,346
Premiums ceded to reinsurers		**(97,548)**	(112,631)
Premiums written and earned, net of reinsurance	E	**4,276**	5,715
Other operating income	F	**2,242**	2,350
Net Investment loss	G	**(59)**	(736)
		6,459	7,329
Expenses	2		
Change in insurance liabilities, net of reinsurance	H	**600**	(199)
Other operating expenses, net of reinsurance		**(3,931)**	(5,553)
Total expenses		**(3,331)**	(5,752)
Profit for the year before tax		**3,128**	1,577
Tax charge	Q & 6	**—**	—
Profit for the year after tax		**3,128**	1,577

The Company has no recognised income and expenses other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

The accounting policies (identified alphabetically) on pages 14 to 21 and notes (identified numerically) on pages 26 to 47 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2022

				2022
	Note	Ordinary Share Capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		**10,000**	**1,946**	**11,946**
Profit for the year		—	**3,128**	**3,128**
Total comprehensive income for the year		—	**3,128**	**3,128**
Dividends paid	R &7	—	—	—
Balance at 31 December		**10,000**	**5,074**	**15,074**

				2021
	Note	Ordinary Share Capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		10,000	5,069	15,069
Profit for the year		—	1,577	1,577
Total comprehensive income for the year		—	1,577	1,577
Dividends paid	R &7	—	(4,700)	(4,700)
Balance at 31 December		10,000	1,946	11,946

The accounting policies (identified alphabetically) on pages 14 to 21 and notes (identified numerically) on pages 26 to 47 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Financial investments	K & 9	**47,332**	48,985
Reinsurance assets	I & 15	**98,599**	94,730
Receivables	L & 10	**59,312**	65,890
Deferred acquisition costs	N & 11	**16,598**	19,735
Prepayments and accrued income		**1,264**	1,610
Cash and cash equivalents	20(c)	**22,393**	37,540
Total assets		**245,498**	268,490
Equity			
Ordinary share capital	R & 12	**10,000**	10,000
Retained earnings	13	**5,074**	1,946
Total equity		**15,074**	11,946
Liabilities			
Gross insurance liabilities	H & 14	**99,157**	95,887
Payables and other financial liabilities	M & 17	**80,138**	91,257
Other liabilities	M & 18	**51,129**	69,400
Total liabilities		**230,424**	256,544
Total equity and liabilities		**245,498**	268,490

The accounting policies (identified alphabetically) on pages 14 to 21 and notes (identified numerically) on pages 26 to 47 are an integral part of the financial statements.

The financial statements on pages 22 to 47 were approved and signed on behalf of the Board of Directors on 6 April 2023 by:

JHWG

J C Holliday

Director

06 April 2023

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Cash (used in)/generated from operating activities	O & 20(a)	**(14,148)**	5,092
Total net cash (used in)/generated from operating activities		**(14,148)**	5,092
Cash flows from financing activities			
Dividends paid to ordinary shareholders	O & 20(b)	–	(4,700)
Total net cash used in financing activities		–	(4,700)
Total net (decrease)/increase in cash and cash equivalents		**(14,148)**	392
Cash and cash equivalents at 1 January		**35,000**	34,608
Cash and cash equivalents at 31 December	O & 20(c)	**20,852**	35,000

The accounting policies (identified alphabetically) on pages 14 to 21 and notes (identified numerically) on pages 26 to 47 are an integral part of the financial statements.

Notes to the financial statements

1. Details of income

	Note	2022 £000	2021 £000
Gross written premiums	14(f)	**101,824**	118,346
Less: premiums ceded to reinsurers	15(c)(ii)	**(97,548)**	(112,631)
Gross change in provision for unearned premiums	14(f)	**7,351**	3,486
Reinsurers' share of change in provision for unearned premiums	15(c)(ii)	**(7,351)**	(3,486)
Net change in provision for unearned premiums		**—**	—
Net earned premiums		**4,276**	5,715
Other operating income		**2,242**	2,350
Interest and similar income		**1,693**	1,136
Total unrealised net losses on financial investments		**(1,654)**	(1,704)
Other investment expenses		**(98)**	(168)
Net investment losses		**(59)**	(736)
Total income		**6,459**	7,329

2. Details of expenses

	Note	2022 £'000	2021 £'000
Claims & benefits paid			
Claims and benefits paid to policyholders	14(d)	**47,801**	41,415
Less: Claim recoveries from reinsurers	15(c)(i)	**(47,801)**	(41,415)
Claims and benefits paid, net of recoveries from reinsurers		**—**	—
Change in insurance liabilities			
Change in insurance liabilities	14(d)	**10,619**	1,184
Change in reinsurance asset for insurance provisions	15(c)(i)	**(11,219)**	(985)
Change in insurance liabilities, net of reinsurance		**(600)**	199
Other operating expenses			
Commission and acquisition expenses		**32,675**	53,657
Other operating expenses		**12,360**	14,861
Less: reinsurers' share of expenses		**(41,104)**	(62,965)
		3,931	5,553
Total expenses net of reinsurance		**3,331**	5,752

The Company's expenses (with the exception of levy expenses) are subject to a 100% quota share reinsurance agreement.

Notes to the financial statements (continued)

3. Employee information

The Company has no employees (*2021: none*).

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, and a recharge is made to the Company. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

4. Directors' remuneration

G J Hemming, T J Latter, J Marsh, and A Winslow were remunerated during the year for their roles as employees across the Group. They were not remunerated directly for their services as directors of this Company and no cost is borne by the Company for these services.

D W Kelly was remunerated by a company outside of the Group during their term. No recharge was made to the Company for their services.

During the year, none of the directors exercised share options (2021: none) and four of the directors were granted shares under long term incentive schemes (2021: two) in relation to shares of the Company's ultimate parent company, Aviva plc.

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2022 £	2021 £
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the Company's financial statements	**52,080**	**48,000**
Audit related assurance	—	—
	52,080	**48,000**

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group subsidiary, and recharged as appropriate to the Company and fellow Group companies.

Notes to the financial statements (continued)

6. Tax

(a) There was no tax charged/ credited to the income statement in 2022 or 2021.

(b) Tax reconciliation

The tax on the Company's profit before tax differs from (2021: differs from) the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	Note	2022 £'000	2021 £'000
Total profit before tax		**3,128**	1,577
Tax calculated at standard UK corporation tax rate of 19.00% (2021: 19.00%)		**(594)**	(300)
Losses surrendered intra-group for nil value		**594**	300
Total tax (charge)/credit to income statement	6(a)	**—**	—

The UK Government has enacted an increase in the UK corporation tax rate to 25%, from 1 April 2023. As the Company has no deferred tax assets or liabilities, there is no impact of the Company's net assets as a consequence of the amendments to the tax rates.

7. Dividends

	2022 £'000	2021 £'000
Ordinary dividends declared and charged to equity in the year:		
Interim dividend – £0 per share, (2021: £0.47 per share) paid in December 2022 (2021: December 2021)	—	4,700
	—	4,700

Notes to the financial statements (continued)

8. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date. Level 1 inputs already reflect market participant views of climate change impacts and no further adjustments are made to these values.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in an active market;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads); and
- market-corroborated inputs.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

All of the Company's assets and liabilities measured at fair value, are based on quoted market information or observable market data. The Company applies fair value hierarchy Level 1 to its assets as detailed in note 9.

(b) Changes to valuation techniques

No changes were made to the valuation techniques during the year compared to those described in the Company's 2021 annual report and financial statements.

(c) Comparison of the carrying amount and fair values of financial instruments

The fair value of all the Company's financial investments being debt securities approximates to their carrying amounts.

The fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest ("SPPI") on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category. Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements (continued)

	Note	2022		2021	
		£'000	£'000	£'000	£'000
		SPPI - Fair value	Non-SPPI - fair value	SPPI - Fair value	Non-SPPI - fair value
Financial assets					
Debt securities	9	—	**47,332**	—	48,985
Receivables	10	**59,312**	—	66,266	—
Cash and cash equivalents	20	**493**	**21,900**	540	37,000
Total		**59,805**	**69,232**	66,806	85,985

During 2022 there has been a £7,001 thousand decrease *(2021: £3,613 thousand decrease)* in the fair value of SPPI instruments, and a £16,753 thousand decrease *(2021: £496 thousand increase)* in the fair value of non-SPPI instruments.

9. Financial investments

Financial investments comprise:

(a) Carrying amount and movements in assets

The table below shows movements in the assets measured at fair value through profit and loss :

Debt securities UK Government	2022	2021
	£'000	£'000
Balance at 1 January	**48,985**	50,689
Total net losses recognised in the income statement	**(1,654)**	(1,704)
Balance at 31 December	**47,332**	48,985

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

	2022				2021			
	Cost/ amortised cost	Unrealised losses	Unrealised losses and impairments	Fair value	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK Government	**47,980**	**(648)**	—	**47,332**	48,438	547	—	48,985
	47,980	**(648)**	—	**47,332**	48,438	547	—	48,985

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

(c) Impairment of financial investments

There were no impairments in 2022 *(2021: £nil)*.

10. Receivables

	2022	2021
	£'000	£'000
Amounts owed by contract holders	**53,721**	63,144
Amounts owed by intermediaries	**395**	377
Amounts due from reinsurers	**5,196**	2,369
Total as at 31 December	**59,312**	65,890
Expected to be recovered in less than one year	**59,312**	65,890

Notes to the financial statements (continued)

11. Deferred acquisition costs

The movement in deferred acquisition costs, in respect of insurance contracts, during the year are:

	2022 £'000	2021 £'000
Carrying amount at 1 January	**19,735**	20,443
Acquisition costs deferred during the year	**29,555**	53,375
Amortisation	**(32,692)**	(54,083)
Total as at 31 December	**16,598**	19,735

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

12. Ordinary share capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
10,000,000 (2020: 10,000,000) ordinary shares of £1 each	**10,000**	10,000

13. Retained earnings

	Note	2022 £'000	2021 £'000
Balance at 1 January		**1,946**	5,069
Profit for the year		**3,128**	1,577
Dividends paid	7	**—**	(4,700)
Balance at 31 December		**5,074**	1,946

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings exceed regulatory capital requirements.

Notes to the financial statements (continued)

14. Insurance liabilities

(a) Carrying amount:

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2022	2021
	£'000	£'000
Outstanding claims provisions	**34,154**	30,769
Provision for claims incurred but not reported	**14,169**	6,935
	48,323	37,704
Provision for unearned premiums	**50,833**	58,183
Total	**99,157**	95,887

(b) General insurance

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

When calculating reserves, the Company takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability. The future recoveries from salvage and subrogation offset against reserves is £720 thousand *(2021: £666 thousand)*.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Rate		Mean term of liabilities	
	2022	2021	2022	2021
Structured settlements	**2.9% - 4.5%**	0.6% - 2.0%	**31 years**	32 years

Bodily injury claims to be settled by a structured settlement by the Company, have been awarded by the Courts and these are reserved for on a discounted basis. The period of time which will elapse before the liability is settled has been estimated by modelling the settlement pattern of the underlying claim. The gross outstanding claims provisions for structured settlements before discounting are £11,210 thousand (*2021*: £11,099 thousand). Loss reserves are only established for losses that have already occurred.

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each geographic area, as well as each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic

Notes to the financial statements (continued)

conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The recent period of elevated claims inflation and supply chain disruption has distorted historic development patterns, we have developed bespoke "inflation" models to help quantify these impacts. Explicit overlays can then be made to the outputs from the standard reserving tools where necessary. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

Interest rates used to discount structured settlements

The discount rates used in determining structured settlements are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of claims. The range of discount rates used is shown in section b (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2022, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £367 thousand (*2021*: £871 thousand), excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact has decreased over the year due to an increase in the overall level of interest rates, making the discounted position smaller and relatively less sensitive to a 1% reduction in the assumed rate. The impact of a 1% fall in interest rates across all assets and liabilities is shown in note 22.

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

(d) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2022 £'000	2021 £'000
Carrying amount at 1 January		**37,704**	36,520
Claim losses and expenses incurred related to prior year		**2,805**	2,486
Claim losses and expenses incurred related to current year		**55,615**	40,113
Incurred claims losses and expenses		**58,420**	42,599
Less:			
Payments made on claims incurred in the current year		**(26,504)**	(24,752)
Payments made on claims incurred in the prior year		**(21,297)**	(16,663)
Claims payments made in the year	2	**(47,801)**	(41,415)
Changes in gross claims		**10,619**	1,184
Carrying amount at 31 December		**48,323**	37,704

(e) Loss development tables

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2013 to 2022. The upper half of each table shows the cumulative amounts paid during successive years relating to each accident year. For example, with respect to the accident year 2013, by the end of 2022 £(97,156) thousand gross had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £100,169 thousand was re-estimated to be £97,283 thousand at 31 December 2022. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claims frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2022), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table above. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Notes to the financial statements (continued)

Loss development tables

Accident year	All prior years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross cumulative claim payments												
At end of accident year		(58,549)	(59,208)	(43,849)	(42,517)	(39,550)	(45,797)	(36,658)	(31,995)	(24,752)	(26,504)	
One year later		(90,344)	(82,287)	(62,157)	(59,041)	(53,812)	(63,669)	(48,826)	(43,915)	(39,014)		
Two years later		(94,430)	(84,447)	(64,618)	(60,465)	(55,040)	(66,175)	(50,621)	(46,071)			
Three years later		(95,707)	(85,994)	(64,899)	(60,921)	(55,247)	(67,636)	(51,634)				
Four years later		(96,076)	(86,591)	(65,153)	(61,479)	(55,878)	(68,252)					
Five years later		(96,482)	(86,491)	(65,262)	(61,511)	(56,139)						
Six years later		(96,736)	(86,462)	(65,354)	(62,092)							
Seven years later		(96,863)	(86,671)	(65,522)								
Eight years later		(96,974)	(86,899)									
Nine years later		(97,156)										
Estimate of gross ultimate claims												
At end of accident year		100,169	88,472	72,953	63,099	59,521	68,323	57,204	50,385	40,113	55,615	
One year later		95,415	87,098	65,779	62,912	56,936	67,613	51,556	48,028	42,863		
Two years later		96,541	86,770	65,800	62,345	56,301	69,475	52,538	48,772			
Three years later		96,532	86,991	65,768	62,109	56,595	70,028	53,123				
Four years later		96,906	86,919	66,039	61,971	56,729	69,887					
Five years later		96,887	86,468	65,426	62,072	57,003						
Six years later		96,973	86,626	65,624	62,633							
Seven years later		97,126	86,824	65,651								
Eight years later		97,193	86,979									
Nine years later		97,283										
Estimate of gross ultimate claims		97,283	86,979	65,651	62,633	57,003	69,887	53,123	48,772	42,863	55,615	
Cumulative payments		(97,156)	(86,899)	(65,522)	(62,092)	(56,139)	(68,252)	(51,634)	(46,071)	(39,014)	(26,504)	
Undiscounted gross outstanding claims provisions	14,844	127	80	129	541	864	1,635	1,489	2,701	3,849	29,111	55,370
Effect of discounting	(7,047)	—	—	—	—	—	—	—	—	—	—	(7,047)
Discounted gross outstanding claims provisions recognised in the statement of financial position	**7,797**	**127**	**80**	**129**	**541**	**864**	**1,635**	**1,489**	**2,701**	**3,849**	**29,111**	**48,323**

(i) Net of reinsurance

Claims net of reinsurance 2012 and prior years	2022	2021
	£'000	£'000
Undiscounted net outstanding claims provisions	1,711	2,205
Effect of discounting	(1,154)	(1,048)
Discounted net outstanding claims provisions recognised in the statement of financial position	**557**	1,157

Notes to the financial statements (continued)

(f) Provision for unearned premium

The following changes have occurred in the provision for unearned premiums during the year:

	Note	2022 £'000	2021 £'000
Carrying amount at 1 January		**58,183**	61,670
Premiums written during the year	1	**101,824**	118,346
Less: Premiums earned during the year		**(109,175)**	(121,831)
Changes in provisions for unearned premiums recognised as an income	1	**(7,351)**	(3,486)
Carrying amount at 31 December		**50,833**	58,183

15. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2022			2021		
	Reinsurance assets £'000	Gross insurance liabilities £'000	Net £'000	Reinsurance assets £'000	Gross insurance liabilities £'000	Net £'000
Outstanding claims provisions	**32,294**	**34,154**	**(1,860)**	29,944	30,769	(825)
Provision for claims incurred but not reported	**15,472**	**14,169**	**1,303**	6,603	6,935	(332)
	47,766	**48,323**	**(557)**	36,546	37,704	(1,157)
Provisions for unearned premiums	**50,833**	**50,833**	**—**	58,184	58,183	1
Total at 31 December	**98,599**	**99,157**	**(557)**	94,730	95,887	(1,156)

Of the above total, £37,255 thousand (*2021*: £28,678 thousand) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £5,893 thousand *(2021: £1,991 thousand)* as a result of the discounting of latent claims and structured settlements.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts, shown in note 14(c). Reinsurance assets *are valued net of an allowance for their recoverability.*

Notes to the financial statements (continued)

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2022 £'000	2021 £'000
Carrying amount at 1 January		**36,546**	35,561
Reinsurers' share of claim losses and expenses incurred in current year		**55,615**	40,113
Reinsurers' share of claim losses and expenses incurred in prior years		**3,405**	2,288
Reinsurers' share of incurred claim losses and expenses		**59,020**	42,401
Less:			
Reinsurance recoveries received on claims			
Incurred in current year		**(26,504)**	(24,752)
Incurred in prior years		**(21,297)**	(16,663)
Reinsurance recoveries received in the year	2	**(47,801)**	(41,415)
Change in reinsurance asset recognised as expense		**11,219**	985
Carrying amount at 31 December		**47,766**	36,546

(ii) Reinsurers' share of the provision for unearned premiums

	Note	2022 £'000	2021 £'000
Carrying amount as at 1 January		**58,184**	61,670
Premiums ceded to reinsurers in the year	1	**97,548**	112,631
Less: Reinsurers' share of premiums earned during the year		**(104,899)**	(116,117)
Changes in reinsurers' share of provisions for unearned premium recognised in income	1	**(7,351)**	(3,486)
Carrying amount at 31 December		**50,833**	58,184

16. Tax assets and liabilities

(a) Current tax

There are no current tax assets/liabilities receivable/payable in more or less than one year *(2021: £nil)*.

(b) Deferred tax

The Company did not have any recognised or unrecognised deferred tax balances in 2022 (*2021: £nil*)

Notes to the financial statements (continued)

17. Payables and other financial liabilities

	Note	2022 £'000	2021 £'000
Payables arising out of direct insurance and assumed reinsurance		**2,271**	2,076
Payables arising out of reinsurance operations			
- Amount due to other Group companies	23(a)(i)	**65,248**	65,292
- Other		**8,258**	222
Bank overdrafts	20(c)	**1,541**	2,540
Amounts due to other Group companies	23(a)(iii)	**2,820**	21,127
Total as at 31 December		**80,138**	91,257
Expected to be settled within one year		**80,138**	91,257
		80,138	91,257

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

18. Other liabilities

	Note	2022 £'000	2021 £'000
Deferred income		**1,394**	3,207
Reinsurers' share of deferred acquisition costs	23(a)(i)	**16,602**	19,735
Accruals		**28,429**	41,666
Other liabilities		**4,704**	4,792
Total as at 31 December		**51,129**	69,400
Expected to be settled within one year		**51,129**	69,400
Total as at 31 December		**51,129**	69,400

19. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 14 gives details of the estimation techniques used in determining the general business outstanding claims provisions. These approaches are designed to allow for a degree prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Regulatory compliance

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company pays contributions to levy schemes in the country in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

Notes to the financial statements (continued)

20. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2022 £'000	2021 £'000
Profit before tax	**3,128**	1,577
Adjustments for:		
Changes in working capital:		
(Increase)/decrease in reinsurance assets	**(3,868)**	2,501
Decrease in deferred acquisition costs	**3,137**	708
Decrease in receivables	**6,577**	915
Decrease in prepayments and accrued income	**347**	409
Increase/(decrease) in insurance liabilities	**3,270**	(2,303)
Decrease in payables and other financial liabilities	**(16,846)**	(12,445)
(Decrease)/increase in other liabilities	**(11,547)**	12,026
Revaluation of financial investments	**1,654**	1,704
Total cash generated from operating activities	**(14,148)**	5,092

Purchases and sales of investment property and financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

Payables and other financial liabilities, excludes bank overdrafts and is stated after eliminating £nil (*2021*: nil) of corporation tax settled or to be settled by group relief.

(b) Financing activities:

	Note	2022 £'000	2021 £'000
Dividends paid	7	—	4,700

(c) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	Note	2022 £'000	2021 £'000
Cash at bank and in hand		**493**	540
Cash equivalents		**21,900**	37,000
		22,393	37,540
Bank overdrafts	17	**(1,541)**	(2,540)
		20,852	35,000

Notes to the financial statements (continued)

21. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

(b) Capital management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 22) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2022 the Company's estimated own funds under Solvency II were £16,178 thousand (*2021*: £12,950 thousand) (unaudited). The Company's own funds are sufficient to meets its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

IFRS Net Assets	**2022**	**2021**
General insurance	**£'000**	**£'000**
Equity shareholders' funds	**15,074**	11,946
Total capital	**15,074**	11,946

22. Risk management

Risk Environment

During the year, the global economy has experienced elevated inflation, rising interest rates and stagnating economic growth. Expectations for 2023 are that interest rates will see further rises and we are closely monitoring our liquidity position due to the need to post collateral on interest rate swaps (due to interest rate yield curve rises). The Bank of England expects the UK economy to remain in recession throughout 2023 and the first half of 2024, with GDP expected to recover only gradually thereafter. This will increase the risk of credit defaults and rating downgrades. Affordability is an increasing concern to trading due to the economic climate, and will impact all customers, including relatively affluent customers. Customer experience and retention will continue to require close monitoring. Continued heightened geo-political tensions, specifically over the conflict in the Ukraine, and the potential for further disruption to energy supplies are an additional source of uncertainty for financial and commodity markets, impacting on the peak and duration of inflation and interest rates.

The removal of the majority of government restrictions related to COVID-19 has led to claims frequency increasing to and stabilising at more normal levels.

The Company continues to maintain strong solvency and liquidity positions and is resilient to the range of Stress and Scenario Tests (SST) to which the Company could become exposed to and maintains a set of plausible and timely management actions which include retention of dividends and capital injections from AIL (immediate parent Company).

We have seen an increased threat of malware/ransomware attacks across the world. In response we have increased the protection level of anti-malware security controls. We continue to monitor threat intelligence data and update our security controls to maintain protection against new and emerging ransomware variants.

The Group remains committed to supporting a low carbon economy that will improve the resilience of our economy, society and the financial system in line with the 2015 Paris Agreement target on climate change. In March 2021, the Group set an ambition to become a Net Zero carbon company by 2040 and are acting now to mitigate and manage the impact of climate change on the business. The Group calculates a Climate Value at Risk ("VaR") against the Intergovernmental Panel on Climate Change ("IPCC") scenarios to assess the climate-related risks and opportunities under different emission projections and associated temperature pathways. A range of different financial indicators are used to assess the impact on the Company's investments.

Notes to the financial statements (continued)

(a) Risk management framework (RMF)

The Company's RMF has a key role in supporting the business to deliver its purpose for our customers, our people and our shareholders, helping the business discover, predict, understand and manage our risks, thereby maintaining a safe risk environment. The RMF comprises the systems of governance, including Risk Policies and Business Standards, risk management processes and Risk Appetite Framework (RAF), risk oversight committees (both Board and Management) and clearly defined roles and responsibilities along with the processes the Company uses to identify, measure, manage, monitor and report (IMMMR) risks, including the use of risk models and Stress and Scenario Testing (SST).

The Company's RAF outlines the risks that the Company selects and manages in pursuit of return, the risks the Company accepts and retains a moderate level of and the risks the Company actively avoids or takes action to mitigate as far as practical. It comprises:

a. Risk preferences: qualitative statements that express where the business prefers to take risk (or else accept or avoid) and why, applied to individual key risk types (e.g. GI Reserving and Inflation).
b. Risk appetites: overarching statements, metrics and thresholds that express the level of risk the business is willing to accept. The Company has risk appetites for Solvency, Liquidity, Operational, and from 1 January 2022, risk appetites are also in place for conduct risk and climate risk (albeit are reported at an AIL level only). Risk appetites are reviewed and approved annually by the Board. The Company's position against its risk appetites is monitored at management committees quarterly and reported to the Board for approval on an annual basis.
c. Risk limits: quantify more granular limits for specific defined risk exposure (e.g. maximum credit exposure limits to particular counterparties).

To promote a consistent and rigorous approach to risk management across the business, the Company has adopted a number of Risk Policies and Business Standards. The Risk Policies set out the Board's risk strategy appetite for risk and its expectations in respect of the management of risk while the Business Standards set out the mandated controls which together with any local controls aim to keep key operational risks within tolerance. The parent company Chief Executive Officer makes an annual attestation that the system of governance and internal controls was effective and fit for purpose for the Company throughout the year, this declaration is supported by an opinion from the Chief Risk Officer.

A variety of tools and processes are available to support risk identification; both bottom up and top down, and while run separately are designed to complement each other and used to generate risk reports which are shared with the relevant Risk Committees The Top-Down Risk Assessment (TDRA) process which is facilitated by the Risk Function, with input from Management, focuses on identifying both proximate and emerging risks from events outside the Company and which are primarily beyond its influence and control. Conversely, the Bottom up Risk and Control Self Assessment (RCSA) which is owned by Management with challenge from the Risk Function focuses on operational risks, that arise from within internal processes, systems or people and which might prevent the business from achieving its objectives.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile with consideration to the risk management actions available. A range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests are undertaken to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II Solvency Capital Requirement (SCR).

Aviva staff acting on behalf of the Company are involved in the management and mitigation of risk, with the RMF embedded in the day-to-day management and decision making processes. The 'three lines of defence model' is adopted by the Company and the Group (as required by the RMF policy). First Line (the Business) is accountable for the management of all risks relevant to the business of the Company, including the implementation of the RMF and embedding of the risk culture. Second line (the Risk Function) is responsible for providing independent objective quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the RMF. The third line (Internal Audit) provides an independent assessment of the RMF and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetites, which are an expression of the risk the business is willing to take.

Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has no appetite for risk of poor customer outcomes, market abuse or activities which might impact market stability and/or integrity of fair competition and takes all reasonable steps to comply with all conduct regulations and deliver good customer outcomes.

Further information on the types and management of specific risk types and the changing risk profile is given in sections (a) to (h) below.

(b) Credit risk

Credit risk is the risk of loss or adverse outcomes due to a third party default event or to a change to a third party credit standing.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to debt security investments, cash and cash equivalents, reinsurance counterparties and other receivables.

The Company's credit risk management processes (including limits frameworks) complies with the Aviva Group credit limit framework.The parent Company (AIL) Asset & Liability Committee (ALCO) oversees financial risks including credit risk, and ensures detailed reporting and monitoring of exposures against pre-established risk criteria.

Oversight of credit risk for the Company is undertaken by the Board. The Company has minimal direct investment exposure to Russia and Ukraine, and no exposure to Belarus.

(i) Financial exposures by credit ratings

Financial assets other than equities are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. "Not rated" assets capture assets not rated by external ratings agencies. The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings.

Notes to the financial statements (continued)

31 December 2022	£'000 AA/AA-	£'000 A+/A/A-	£'000 BBB	£'000 Below BBB	£'000 Not-rated	£'000 Carrying value
Debt securities	**47,332**	—	—	—	—	**47,332**
Reinsurance assets	**96,851**	**1,620**	—	**129**	—	**98,599**

31 December 2021	£'000 AA/AA-	£'000 A+/A-	£'000 BBB	£'000 Below BBB	£'000 Not-rated	£'000 Carrying value
Debt securities	48,985	—	—	—	—	48,985
Reinsurance assets	94,057	663	—	—	10	94,730

The table below provides information regarding the aggregated credit risk exposure of the Company's financial assets that are considered to have contractual terms which are Solely Payments of Principal and Interest (SPPI), excluding amounts due from reinsurers, which are included above, and cash and cash equivalents. Cash and cash equivalents are held with highly rated banking institutions or liquidity funds.

SPPI financial exposure by credit ratings

31 December 2022	AA-/AA/AA+ £'000	A-/A/A+ £'000	BB £'000	Not-rated £'000	Carrying value £'000
Receivables	**2,751**	**2,323**	—	**54,238**	**59,312**

31 December 2021	AA-/AA/AA+ £'000	A-/A/A+ £'000	BB £'000	Not-rated £'000	Carrying value £'000
Receivables	599	2,018	—	63,648	66,266

The Company's maximum exposure to credit risk of financial assets is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, and receivables. The carrying values of these assets are disclosed in the relevant notes; financial investments (note 9), reinsurance assets (note 15), and receivables (note 10).

(ii) Credit concentration risk

The Company has significant financial exposure to amounts due from its parent company, arising from its reinsurance arrangement, as described in note 23(a)(i). The credit risk arising from its parent company failing to meet all or part of its obligations is considered remote.

(iii) Impairment of financial assets

Financial investments of £47,332 thousand (*2021*: £48,985 thousand) and reinsurance assets of £98,599 thousand (*2021*: £94,730 thousand) are neither impaired nor overdue.

Receivables of £59,312 thousand (*2021*: £65,890 thousand) primarily comprising amounts due from insurance contract holders (note 10) and cash and cash equivalents of £22,393 thousand (*2021*: £37,540 thousand) are not impaired.

The following table provides information regarding the ageing of receivables that are past due but not impaired.

		Financial assets that are past due but not impaired				
31 December 2022	Neither past due nor impaired £'000	0-3 months £'000	3-6 months £'000	6 months-1 year £'000	Greater than 1 year £'000	Carrying value £'000
Amounts due from contract holders	48,816	4,858	16	2	29	53,721
Amounts due from intermediaries	395	—	—	—	—	395
Amounts due from reinsurers	5,196	—	—	—	—	5,196
	54,407	**4,858**	**16**	**2**	**29**	**59,312**

		Financial assets that are past due but not impaired				
31 December 2021	Neither past due nor impaired £'000	0-3 months £'000	3-6 months £'000	6 months-1 year £'000	Greater than 1 year £'000	Carrying value £'000
Amounts due from contract holders	57,346	5,746	19	4	29	63,144
Amounts due from intermediaries	377	—	—	—	—	377
Amounts due from reinsurers	2,369	—	—	—	—	2,369
	60,092	5,746	19	4	29	65,890

Notes to the financial statements (continued)

(c) Market risk

Market risk is the risk of loss or adverse outcomes due directly or indirectly to fluctuations in interest rates, inflation, foreign currency exchange rates, equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risks as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed interest securities and their movement relative to the value placed on the insurance liabilities.

The sensitivity of profit before tax and shareholder funds, to changes in interest rates is given in section (f)(ii) 'risk and capital management' below.

The Company operates within the UK and there is no exposure to foreign currency exchange rates.

Oversight of market risk for the Company is undertaken by the Board.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form either in normal and / or stressed conditions.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a financial Risk Policy and liquidity Business Standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following table shows the maturities of the Company's insurance liabilities, payables and other financial liabilities and of the financial assets and reinsurance assets held to meet them.

(i) Analysis of maturity of financial liabilities and insurance contract liabilities

The following table shows the Company's financial liabilities and insurance contract liabilities analysed by duration:

					2022
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Provisions for outstanding claims	**48,323**	**21,495**	**14,900**	**5,177**	**6,751**
Provision for unearned premiums	**50,833**	**39,849**	**10,282**	**702**	**—**
Payables and other financial liabilities	**80,138**	**80,138**	**—**	**—**	**—**
	179,294	**141,482**	**25,182**	**5,879**	**6,751**

					2021
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Provisions for outstanding claims	37,704	18,391	10,365	2,560	6,388
Provision for unearned premiums	58,183	47,660	10,041	482	—
Payables and other financial liabilities	91,257	91,257	—	—	—
	187,144	**157,308**	**20,406**	**3,042**	**6,388**

(ii) Analysis of maturity of financial assets and reinsurance assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium).

Notes to the financial statements (continued)

					2022
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	**47,332**	**47,332**	**—**	**—**	**—**
Reinsurers' share of claims provisions	**47,766**	**21,495**	**14,888**	**5,105**	**6,278**
Reinsurers' share of unearned premium provision	**50,833**	**39,849**	**10,282**	**702**	**—**
Receivables	**59,312**	**59,312**	**—**	**—**	**—**
Cash and cash equivalents	**22,393**	**22,393**	**—**	**—**	**—**
Total financial assets	**227,636**	**190,381**	**25,170**	**5,807**	**6,278**

					2021
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	48,985	—	48,985	—	—
Reinsurers' share of claims provisions	36,546	18,391	10,362	2,480	5,313
Reinsurers' share of unearned premium provision	58,184	47,660	10,041	483	—
Receivables	65,889	65,889	—	—	—
Cash and cash equivalents	37,540	37,540	—	—	—
Total financial assets	247,145	169,481	69,389	2,963	5,313

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Oversight of liquidity risk for the Company is undertaken by the Board.

(e) General insurance risk

General insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations.
- Unexpected claims arising from a single source or cause.
- Inadequate claims reserving assumptions.
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten, and/or
- Inadequate reinsurance protection or other risk transfer techniques.

The general insurance business underwritten by the Company is predominantly of a short-tail nature such as household insurance. The Company recognises that the severity and frequency of weather-related events has the potential to adversely impact provisions for insurance liabilities and earnings, with the result that there is some seasonality in the Company's results from period to period,

The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Reserving processes are further detailed in note 14.

The adequacy of the Company's general insurance gross and net claims provisions is overseen by the Reserve and Projections Committee. Actuarial claims reserving is the responsibility of the Company's actuaries.

The Company's largest reinsurance arrangements include a 100% quota share reinsurance arrangement with its parent company, Aviva Insurance Limited, as described in note 23(a)(i), which has substantially reduced its net insurance risk exposure.

Oversight of insurance risk for the Company is undertaken by the Board.

(f) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has a very low appetite for operational risks which could result in material losses (direct or indirect), a financial misstatement or have a material negative impact on reputation, customers, employees or other stakeholders.

The Company's Operational Risk and Control Management framework (ORCM) integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk outside tolerance is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

The Company's overarching risk management and internal control system has incorporated the changes that came with COVID 19 into BAU and the control environment remains robust in the current operating environment.

Notes to the financial statements (continued)

The Russia-Ukraine conflict has heightened the risk of cyber security attacks on the Company or its suppliers, in particular via denial of service attacks. Although to date no serious cyber security incidents have been reported, the Company has strengthened its perimeter controls. The Company has engaged with its suppliers to ensure they have put in place all reasonable measures to ensure that services to the Company remain unaffected.

The Company actively monitors social and other media in order to manage mis/disinformation about its business, its products, the employees of fellow subsidiaries engaged in its business, or its customers should the Company be targeted by a hostile actor in the context of the situation in Ukraine or elsewhere, taking corrective media action if necessary.

The Company has in place systems and controls to ensure it does not provide general insurance to individuals subject to sanctions, including those arising from the Russia-Ukraine conflict, and that for any client relationships existing before the imposition of sanctions policies are cancelled.

Oversight of operational risk for the Company is undertaken by the Board.

(g) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of its capital requirements and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(i) General insurance

General insurance liabilities are estimated by using standard actuarial claims projection techniques. These methods are primarily based on extrapolating the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made and projections are based on assumptions implicit in the historic claims data. Where this is not appropriate, adjustments and explicit allowances are made. As such in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

(ii) Sensitivity results

Some results of IFRS sensitivity testing for the Company's business are set out below. For each sensitivity the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by ± 1%
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in tables below:

Notes to the financial statements (continued)

Impact on profit before tax

31 December 2022	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	519	(851)	(1,502)	(2,781)
Net of reinsurance	(96)	(10)	(303)	—

Impact on shareholders' equity

31 December 2022	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	519	(851)	(1,502)	(2,781)
Net of reinsurance	(96)	(10)	(303)	—

Impact on profit before tax

31 December 2021	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	1,186	(2,116)	(1,892)	(2,006)
Net of reinsurance	(269)	(23)	(534)	—

Impact on shareholders' equity

31 December 2021	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	1,186	(2,116)	(1,892)	(2,006)
Net of reinsurance	(269)	(23)	(534)	—

The sensitivities in the above table are based on amounts included in the 2022 income statement and statement of financial position at 31 December 2022.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Limitations of sensitivity analysis

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, changes may occur over a period of time and there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risks that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Assets are held at fair value in accordance with the relevant accounting policy. All of such assets are valued based on quoted market information or observable market data.

(h) Climate Change

The Company considers climate change to be a significant risk to our strategy and business model and its impacts are already being felt. Global average temperatures over the last five years have been the hottest on record. Despite the United Nations Framework Convention on Climate Change Paris Agreement, the current trend of increasing CO_2 emissions is expected to continue, in the absence of radical action by governments, with global temperatures likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts and windstorms) increasing in frequency and severity. Disclosure of potential impacts against various climate scenarios and time horizons will become increasingly common for all companies. The Aviva Plc Climate-related Financial Disclosure sets out how Aviva incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics (e.g.

Notes to the financial statements (continued)

Climate Value-at-Risk) and targets. The Company is committed to aligning its business to the 1.5°C Paris Agreement target and plans to be a Net Zero company by 2040.

The Aviva Group is acting now through its Sustainability Ambition to mitigate and manage its impacts both today and in the future. Through these actions, we continue to build resilience to climate-related transition, physical and liability risks. The Company's principal risks impacted by climate change are credit risk, market risk, general insurance risk and operational risk.

Our risk policies (including the Company's RMF and ORSA) to explicitly cover climate and other sustainability risks and to integrate these risks in our risk and control management activities.

The Aviva Group uses a variety of metrics to identify, measure, monitor and report alignment with global or national targets on climate change mitigation and the potential financial impact on our business.

The Company has a very low appetite for climate-related risks which could have a material negative impact upon our balance sheet and business model as well as our customers and wider society. We actively seek to limit our exposure over time to the downside risks arising from the transition to a low carbon economy. We seek to identify and support solutions that will drive a transition to a low-carbon, climate resilient economy. We seek to limit our net exposure to the more acute and chronic physical risks that will occur in the event the Paris Agreement target is not met. We actively avoid material exposure to climate litigation risks including greenwashing risk. We review and monitor our exposure to this risk taking into account rapidly evolving regulatory requirements.

For further details see the Aviva plc Climate-related Financial Disclosure 2022 report.

(i) Conflict in Ukraine

The Company does not have material underwriting exposure to Russia and the Ukraine, and does not conduct operations in the affected region.

The conflict in Ukraine and ongoing disruption to global supply chains has resulted in heightened claims inflation during 2022 which is expected to persist into 2023 and has increased the uncertainty associated with the cost of settling general insurance claims. While the impacts of heightened claims inflation are being mitigated via new business pricing actions, our ability to price for inflation is dependent on market, competitor and customer behaviour. The time lag between premium earning and claims emergence means that some adverse impact on profitability is expected.

23. Related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries, associates and fellow subsidiaries in the normal course of business.

(a) The Company had the following related party transactions

(i) Quota share arrangement

The Company has a quota share reinsurance arrangement with Aviva Insurance Limited, with effect from 1 January 2006.

The key terms of the agreement remain:

- a 100% cession rate on premiums, claims costs and underwriting expense costs is applied in respect of the underwriting year; and
- a requirement for the Company to retain a percentage in relation to the Financial Services Compensation Scheme levy.

The premiums, claims and expenses which have been reinsured to Aviva Insurance Limited under the arrangement are:

	2022 £'000	2021 £'000
Premiums earned	**95,867**	106,289
Claims incurred	**(59,857)**	(41,707)
Fee, commission and operating expenses	**(41,104)**	(62,965)
Net result	**(5,094)**	1,617

As at 31 December 2022, the balances in the statement of financial position relating to this arrangement are:

	2022 £'000	2021 £'000
Reinsurance assets	**92,169**	87,192
Payable arising out of ceded reinsurance	**(65,248)**	(65,292)
Reinsurers' share of deferred acquisition costs	**(16,602)**	(19,735)

Notes to the financial statements (continued)

(ii) *Structured settlements arrangement*

The Company has an arrangement with Aviva Life & Pensions UK Limited, a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements, also known as periodical payment orders. The amounts charged to the income statement for the year under the arrangement are:

	2022 £'000	2021 £'000
Change in reinsurance assets	**(2,874)**	(323)
Net result ceded	**(2,874)**	(323)

As at 31 December 2022, the balance in the statement of financial position relating to this arrangement is:

	2022 £'000	2021 £'000
Reinsurance asset (including unearned premium provision)	**3,257**	6,131

(iii) *Other transactions - provided to and by related parties*

	2022 Expenses incurred in the year £'000	2022 Payable at year end £'000	2022 Receivable at year end £'000	2021 Expenses incurred in the year £'000	2021 Payable at year end £'000	2021 Receivable at year end £'000
Parent	**19,318**	**(2,820)**	—	20,220	(21,127)	—
	19,318	**(2,820)**	—	20,220	(21,127)	—

Expense incurred in the year of £19,318 thousand (*2021:* £20,220 thousand) represents recharges of costs payable to Aviva Insurance Limited, the Company's parent.

(b) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Note 4, Directors' remuneration, gives details of their compensation as directors of the Company.

(c) Immediate Parent entity

The Company's immediate parent company is Aviva Insurance Limited, registered in Scotland.

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

24. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2022 to the date of these financial statements.

During January 2023, the Company has entered into a contractual agreement with its distribution partner Barclays Bank UK plc that will result in the Company terminating the current business arrangement on a target date in the third quarter of 2023 and acquiring renewal rights to in-force UK household insurance policies in return for an upfront payment to the distribution partner later in 2023. This payment, which will be determined with reference to the number of in force policies at that date, will be funded via capital injection from the parent. Brand migration of these policies from Barclays to Aviva will happen on the acquisition date, with no further new business acquisition into Gresham. The principal activity of the Company going forward will therefore be to administer and manage the in-force UK household insurance policies.