Covea Insurance plc

Annual Report and Financial Statements

For the Year Ended 31 December 2022

Registered Number: 00613259

Contents

The Directors present their Strategic Report on Covea Insurance plc ("the Company") for the year ended 31 December 2022.

BACKGROUND

The Company is a general insurance company offering a range of products for individuals and small and medium-sized businesses, distributed both directly to customers and through a network of intermediaries and brokers across the United Kingdom (UK). The Company operates across the UK and is a member of one of Europe's largest mutual insurance groups, Covéa.

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the underwriting of non-life insurance business in the UK. The business conducted primarily relates to the insurance of motor, fire and other damage to property, liability, accident and health, and miscellaneous risks.

REVIEW OF KEY PERFORMANCE INDICATORS

The key financial results for 2022 relative to 2021 are:

	2022 £'000	2021 Restated[1] £'000
Gross premiums written	855,040	839,279
Technical account result [1]	(134,339)	5,054
(Loss)/Profit after tax[1]	(145,547)	6,147
Combined operating ratio[12]	122.5%	99.1%
Total assets[1]	1,737,079	1,675,495
Solvency II capital coverage	124.1%	127.9%

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

[2] The combined operating ratio is the aggregate of claims incurred, net of reinsurance, net operating expenses and other technical income as a proportion of earned premium, net of reinsurance.

REVIEW OF PERFORMANCE

The Company made a £145.5m loss after tax in 2022, with a combined operating ratio of 122.5%. This adverse performance was driven by an unprecedented combination of economic influences on claims inflation and premium pricing with rate strength lagging the growing costs of claims, unrecognised investment losses, reflecting the economic environment (in part driven by the Ukraine war), the adverse development of claims following the 2022 winter freeze event and a significant impairment of the UK Group's investment in intangible assets following an economic review. Excluding this one-off economic impairment, the combined operating ratio for the year is 113.9%.

The Company's capital position was strengthened at the year end through a combination of a £58.0m share capital injection from the Company's shareholder, £55.0m of subordinated debt provided by a French parent company and local management actions. The resultant solvency coverage at the year end was 124.1%.

January 2022 saw the implementation of the General Insurance Pricing Practices reforms which introduced challenges as participants updated competitive practices to reflect the revised environment. Operating within the unsettled markets created challenges and, overall, gross premiums written in 2022 were 2% higher than in 2021 with strong premium growth in Commercial Lines, offsetting declines in Personal Lines Motor and Protection.

2022 saw reduced impacts in relation to COVID-19 as activity returned to pre-pandemic levels, whilst Covéa continued to deliver high quality service to both customers and business partners as claims frequencies increased. Our exceptional service and performance were again recognised through the 5-star ratings awarded to both the Personal Lines and Commercial Lines businesses in the Insurance Times' Broker Service Surveys, by winning Insurer of the Year, Personal Lines and Commercial Lines Insurer of the year at the British Claims Awards, and by winning Personal Lines Insurer of the Year at the Insurance Times awards. These achievements are supported by our internal metrics with a market leading Net Promotor score closing the year at 56%, and complaints as a percentage of policies remaining very low at 0.3% (73.8% and 0.4% for 2021 respectively).

REVIEW OF PERFORMANCE (CONTINUED)

The segmental reporting below reflects the way in which the Directors manage the business. It should be noted that this is different to note 4 of the financial statements which reflects the analysis of the Company's performance between business segments specified by the Companies Act 2006. These can be reconciled to the reported result for 2022 as follows:

	Personal Lines Motor	Personal Lines Home	Commercial Lines	Protection and Pet	Total
	£'000	£'000	£'000	£'000	£'000
Gross premiums written	274,639	166,446	350,875	63,080	855,040
Technical account result	(104,873)	(24,894)	(6,060)	1,488	(134,339)

Personal Lines Motor

	2022 £'000	2021 Restated £'000
Gross premiums written	274,639	290,444
Technical account result	(104,873)	1,412
Combined operating ratio	153.3%	99.3%

The Personal Lines Motor business represents the underwriting of insurance of UK private cars and light commercial vehicles (motor trade and commercial fleet insurance, the results of which are reflected within the 'Motor third party liability' and 'Motor other' figures in note 4, are included within the Commercial Lines segment for management purposes). Products are distributed through a network of brokers and intermediaries, under the Provident Insurance brand, and through affinity relationships.

The number of policies in force shrunk 4% with gross premiums written showing a reduction of 5%. This largely reflects the impact of the pricing reforms, combined with the softer pricing environment, together with a conscious desire to mitigate our exposure to the difficult market.

The motor claims environment saw a return to pre-pandemic activity levels and a subsequent increase in claims as a result, with 2021 impacted by the lockdowns and other restrictions. Increased costs of settling claims, driven by supply chain dislocation and significantly increased inflation as a result of the Ukraine war, raised claims costs further.

These influences contributed to an increased combined operating ratio of 153.3% which also includes the impact of an impairment of digital intangible assets following updated economic analysis recharged to the Company in the year. If the one-off impairment is excluded the combined operating ratio would be 127.2% and the technical account loss £53.5m.

Personal Lines Home

	2022 £'000	2021 Restated £'000
Gross premiums written	166,446	165,008
Technical account result	(24,894)	(134)
Combined operating ratio	120.7%	100.1%

The Personal Lines Home business represents the underwriting of insurance of UK residential properties and their contents.

The Home book experienced marginal growth, 1%, in written premium in 2022, despite the removal of significant capacity business from January 2022. Strong relationships with existing brokers have resulted in continued organic growth in the High Net Worth market, which mitigated the impact of slower than anticipated premium increases following the implementation of the pricing reforms. The reduced growth also reflects our pricing strategy which saw inflation applied ahead of the market. The market became more aligned towards the end of the year and volumes increased as a result.

REVIEW OF PERFORMANCE (CONTINUED)

Personal Lines Home (continued)

The Home claims environment has seen costs rise over the course of the year, as claims frequencies approach pre-pandemic levels combined with the significant impact of rising inflation, ongoing labour and material shortages and dry summer leading to increased provision for subsidence claims.

This has led to a combined operating ratio of 114.7%, a 14.6% increase on prior year, and is reflected in the technical account loss of £17.7m in the year.

Commercial Lines

	2022	2021 Restated
	£'000	£'000
Gross premiums written	350,875	316,358
Technical account result	(6,060)	(3,528)
Combined operating ratio	102.4%	101.7%

The Commercial Lines business represents the underwriting of a range of property, liability, and motor insurance products for small and medium-sized businesses in the UK.

Continuing the performance of recent years, 2022 saw notable growth in premiums written, up 11% on 2021. This is supported by the continued strong market sentiment in relation to our service and trading capability and our constant focus on delivering high service levels at each interaction building trust and strong relationships with our brokers.

In a year where inflation costs have increased significantly the combined operating ratio increased only marginally in 2022 to 102.4% and led to a technical account loss of £6.1m.

Protection and Pet

	2022	2021 Restated
	£'000	£'000
Gross premiums written	63,080	67,469
Technical account result	1,488	7,304
Combined operating ratio	95.5%	80.0%

The Protection and Pet business represents the underwriting of a range of accident, income protection and pet insurance products for consumers in the UK. The Protection business is largely in run-off, but elements remain open to new business.

Combined written premiums have reduced 7% against prior year as protection new business volumes reduced. Following strong growth in recent years, the Pet book has remained at prior year levels. A Technical accounting result of £1.5m was achieved, together with a combined operating ratio of 95.5%, against a backdrop of economic downturn, rising inflation and cost of living challenges.

Pet business is mostly reinsured with Covéa now taking an element of the risk in new arrangements.

CAPITAL MANAGEMENT AND SOLVENCY

The Company's objectives in managing its capital are to ensure that it complies at all times with regulatory requirements and that it is able to continue to deliver for its stakeholders, including its policyholders, claimants and shareholder. The Company has adopted the standard formula approach in calculating its Solvency Capital Requirement ("SCR").

	2022	2021
	£'000	£'000
Own funds	336,485	336,508
Solvency capital requirement	271,181	263,147
Own funds in excess of SCR	65,304	73,361
Solvency II capital cover	124.1%	127.9%

The Company's shareholder provided £58.0m of additional share capital and a £55.0m subordinated loan in the year to strengthen the Company's capital position. As a result, the Company's solvency cover remains above the target minimum level of 120%, as set out in the internal capital management policy established by the Directors.

OUTLOOK AND FUTURE DEVELOPMENTS

The Directors' principal strategic objective for the Company is to deliver a sustainable return on capital to its shareholder through our ambition to become the UK's most trusted insurer. This will be achieved through consistently delivering high-quality insurance products and services to its customers.

The UK insurance market over the last few years has been characterised by political, legislative and regulatory uncertainty, high claims inflation, and an extremely competitive environment. Volatility in the market has been increased by the implementation of FCA regulatory changes in relation to pricing and the continued impact of Brexit and the Ukraine war on supply chain costs. Rate strengthening appears to have started in the final months of 2022 and appears to be continuing, however inflation and the cost of living crisis are anticipated to continue to influence the market in the new year.

The value of investments has also been negatively impacted by political instability, both nationally and internationally, and this is expected to continue as we move into 2023.

The Company has completed a strategic review of its business with the objective of returning the Company to profitability in the shortest timeframe possible. The Company will achieve this through focussing on insurance fundamentals across the core products offered by the Company, delivering great customer service, reducing expense and ensuring adaptability in a changing environment.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for establishing the Company's strategy and its appetite for the risks that arise in the implementation of that strategy. A risk management framework has been established, the primary purpose of which is to protect the Company from events that hinder the achievement of its performance objectives.

As the UK continues to face high inflation as a result of supply chain shortages resulting from Brexit, the recovery from the pandemic and the ongoing war in Ukraine there remains a degree of uncertainty around the long-lasting impacts to the Company and to the economy in general. The principal risks arising and uncertainties facing the Company and how they are managed are set out on pages 35 to 44. Below is a high-level view of those risks.

Strategic risk

As a result of Brexit, global supply constraints following the recovery from the pandemic and the Ukraine war, inflation has remained high during 2022. The longer-term outlook remains uncertain as the Government and the Bank of England seek to contain inflation. The current level of inflation is placing business and household incomes under some pressure with discretionary spend on insurance reducing whilst also impacting the Company through higher claims costs and volatility in investment markets. In particular, the Motor Market is seeing a significant challenge with sizeable increases in combined operating ratio expected across the market. As noted in the Strategic Report, the Company has undertaken a strategic review of its business lines with an objective of returning the Company to profitability swiftly. Actions arising from this review are being executed and the Directors are confident this can be achieved. However, the Directors will monitor the market conditions and adjust the business strategy and corporate plans accordingly.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Market risk

Investment yields rose sharply during 2022 as the market anticipated higher base rates to combat the rising level of inflation. The Company's assets are invested in cash, cash funds and high-quality corporate bonds and gilts. Given the nature of the Company's liabilities the assets are held in short and medium term investments that broadly match the liability profile. The Company has a limited exposure to equities (5.4% of invested assets as at 31 December 2022).

The Company continues to work closely with its investment managers to ensure assets and liabilities are matched, but that returns are maximized within the parameters allowed with the Company's risk appetite. The Directors will continue to monitor financial markets; especially with an eye on inflation and the continuing impact this might have on the market value of its portfolio and/or the risk of default from its bond portfolio.

Operational risk

The Company continues to monitor its operational risks. The pandemic has fundamentally changed the way people are working and will work going forward. Whilst a number of the Company's employees have returned to the office full time, a high proportion of staff have adopted a hybrid approach to working. The impact on staff engagement, staff development and overall productivity remains a key area of focus. The Company has implemented a range of tools and resources to ensure that staff development, mental health and wellbeing are continuously supported.

Insurance risk

The Directors continue to monitor the impact on claims experience due to fluctuations in the timing, frequency, and severity of insured events, and have in place a range of procedures, systems and controls covering all aspects of the Company's insurance activities designed to manage and, where possible, mitigate these risks. Reinsurance cover is in place limiting the Company's exposure in respect of individual loss events.

As noted above, high inflation has been a significant factor in the Company's performance in 2022. A number of workstreams were put in place to ensure that inflationary increases seen within the claims environment were duly reflected within pricing action. This will continue into 2023.

On 1st January 2022, the FCA's reforms on pricing practices came into force. These are designed primarily to ensure the market delivers good outcomes for all consumers in the home and motor insurance markets. The reforms led to some market volatility as insurers and customers adjusted to the new environment. The reforms have led in some cases to insurers providing tiered offerings for their products which sees varying levels of cover provided at different prices.

The FCA published its finalised rules and guidance on Consumer Duty in July 2022 following two consultations during the preceding year. This introduces a new Consumer Principle, which requires firms "to act to deliver good outcomes for retail customers". Firms are required to implement the rules for open products and services by the end of July 2023, and for closed books of business by July 2024. Whilst the company already has this principle at the heart of its business model, in October 2022 the Board agreed the implementation plan to ensure that this principle is firmly established across the Company and its trading partners within the timeline set.

Credit risk

The Directors continue to monitor the creditworthiness of its trading partners especially its reinsurers. This is based on, amongst other factors, their external credit rating. Exposure to any one reinsurance group is limited so that the impact of any default on the Company's operations is mitigated.

Solvency risk

All of the above risks may affect the Company's future solvency. As noted in the Capital Management and Solvency section of the Strategic Report the Company has received a capital injection from its parent following the strategic review and significant losses experienced during 2022. The Directors' assessment is that solvency will remain in excess of the regulatory requirement, and they will continue to assess the position and take appropriate action to ensure continuing regulatory compliance. The Company extended the whole book quota share from 20% to 30% commencing from January 2023 to further support its capital position.

Stress testing and scenario analysis

The Directors continue to assess the impact on the Company of different scenarios, especially with those associated with inflation, the ongoing motor market challenges and the changes brought about by the strategic review.

EMPLOYEES

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by an associated service company, Covéa Insurance Services Limited ("CISL"). The policies of CISL, including those in relation to diversity, social matters and human rights, are applicable to these employees and implemented by them. The number of employees of CISL, including the Independent Non-Executive Directors who are remunerated by CISL, but excluding one Non-Executive Director remunerated in France, at 31 December 2022 by gender were as follows:

	Females Number	Males Number	Total Number
Directors	1	4	5
Senior Managers	96	159	255
All other employees	816	623	1,439
Total	913	786	1,699

ENVIRONMENTAL MATTERS

The Company remains committed to taking action to reduce its impact on the environment and to reduce its overall carbon omissions. The Company outlined its desire to align itself with the ABI's Climate Change Roadmap and associated targets last year and is actively looking at actions that it can take to measure progress and achieve the targets. The targets include a 50% reduction in scope 1 emissions by 2030, with the aim of being net carbon neutral by 2050. The Company also indicated its intention to use Science Based Targets ("SBT") to measure and report its progress towards achieving those targets.

To this end, the Company is focussed on implementing and maintaining a policy which recognises the benefits associated with sound environmental performance and practice, and which promotes a culture of responsibility and awareness amongst employees and business partners. The Company communicated its Climate Strategy ambitions to the PRA last year as part of their information gathering initiative.

The Company's Climate Action Group will build on the wide-ranging review that was completed in the year with the aim of determining a strategy and roadmap to achieve the Company's ambitions. The strategy will need to articulate the steps needed to move towards using SBT measures, communicate a roadmap of action to achieve the 2030 and 2050 targets and include initiatives to work with the Company's supply chain and other stakeholders to ensure climate objectives are met.

During the year the Company actively reduced heating and lighting energy usage at multiple premises to reflect lower office attendance with updated working patterns.

The Company will continue to define its risk appetite, policies and processes to ensure that environmental targets are achieved.

ANTI-BRIBERY AND CORRUPTION POLICY

The Company has an established Anti-Bribery and Corruption Policy that is reviewed at least annually. The Policy is based around the six principles laid out by the UK Government as follows:

- Proportionate procedures
- Top-level commitment
- Risk assessment
- Due diligence
- Communication
- Monitoring and review

The Company has a zero-tolerance approach to bribery and corruption, both within its operations and with outsourced service providers, and adopts consistent, robust and effective processes and systems against such practices. The Policy is available to all employees of CISL through the intranet and is reinforced by annual on-line training and assessments. No incidents pertaining to the Policy were recorded during the year.

SECTION 172 STATEMENT

The Directors of the Company are required to act in accordance with a set of duties as detailed in section 172 ("s172") of the Companies Act 2006 ("the Act"). The Act provides that a director must act in the way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the matters set out in s172 of the Act. Details of how the Directors had regard to s172 are set out below.

At appointment Directors are briefed on directors' duties, including s172, with regular reminders throughout the year, particularly when making key or strategic decisions.

The Company is a member of the Covéa Group and is ultimately owned by a group of mutual insurance companies registered in France (see note 26 to the financial statements). There is open and regular engagement with the shareholder, principally through representation on the Board by shareholder representatives, all senior employees of the Covéa Group in France (noted as Non-Executive Directors in the Report of the Directors on page 10). An annual presentation is made to the Board on Covéa Group strategy; the latest took place in December 2022. There is similarly open and regular engagement with the Company's regulators, with the Directors ensuring that all ad hoc and regular reporting requirements are met.

A significant amount of Board time is allocated to the consideration of the Company's strategy, both in formal Board meetings and at a dedicated annual 'strategy day'. The Board are provided, by the executive team and, where appropriate, external consultants, with detailed market and regulatory context to enable an assessment to be made of the risks, challenges and opportunities facing the business and the impact on the Company's strategy to be considered. This allows the Directors to assess the likely consequences of any decisions made on the long-term strategy of the Company.

Directors assess their training and development needs annually and sessions on relevant topics are arranged accordingly. Regular updates are provided by the executive team on product and business development activities, and specific distribution partner relationships.

The key strategic decisions of the Board in the year are reflected in its approval of the business plan. The plan covers a five-year period and is designed to achieve the Company's principal strategic objective to deliver a sustainable return on capital for its shareholder. The Board considered, in particular, changing customer behaviours and needs, the competitive landscape and anticipated regulatory and legislative changes. The impact of COVID-19 on the business operating model continues to be considered by the Board particularly in relation to business strategy and employee engagement and welfare.

Customers, including policyholders and partner brokers, are essential to the Company's business and there is extensive engagement with them to ensure that the Company continues to provide excellent products and customer service. This has been recognised through the Company winning a series of awards in 2022, including 'Personal Lines Insurer of the Year' at the Insurance Times Awards. In addition, the Company won Insurer of the Year, Commercial Lines Insurer of the year and Personal Lines Insurer of the year at the British Claims Awards. The Company's service to brokers was also recognised when, for the 5th year in a row, Covéa topped both Insurance Times' Personal Lines and Commercial Lines Broker Service Surveys with a 5-star rating. In February 2023 the Company was awarded the 'Best Vulnerable Customer Initiative' to recognise its extensive research into vulnerable customers, and the range of measures put in place to provide a service that genuinely addresses vulnerabilities.

The Board receives reports on employee engagement and Non-Executive Directors are given the opportunity to engage with a wide range of employees across the Company. Culture is a regular Board agenda item and includes reporting on the results of regular employee surveys and review of key people measures, including turnover, engagement scores and diversity.

Like many in the UK, the Company is experiencing a very challenging employment market. This, coupled with salary inflation, is resulting in challenges retaining talent. In addition, there is a need to mitigate the cost of living crisis on employees to support with both retention and manage mental health related absence. Increased regulation adds complexity to the consumer proposition and increases pressure on frontline colleagues.

Employees across the UK are looking for more flexibility and autonomy as they explore new ways of working and this need is defining both role applications and rationale for people leaving the business. The focus is to continue to create a stable, motivated culture of high engagement against the backdrop of a cost of living crisis and tough market conditions.

The Board has implemented a suite of policies underpinning the Company's approach and standards in relation to ethics, risk and employee matters. Policies are reviewed at least annually by the Risk or Audit Committee for approval by the Board.

SECTION 172 STATEMENT (CONTINUED)

A whistle-blowing policy is in place to support individuals in raising concerns about risk, wrongdoing or malpractice witnessed at work. A report on the effectiveness of the whistle-blowing policy is reviewed by the Audit Committee and approved by the Board annually. Training activity is also mandatory to ensure that all employees are aware and familiar with the policy.

Customer experience is monitored closely by both the Risk Committee and the Board in terms of both customers' fair treatment and satisfaction with the Company's products and services. There is currently a significant piece of work across the business being led by the Customer Experience team to deliver the actions required to ensure we adhere to the new Consumer Duty which goes live in July 2023. The delivery plan has been signed by the Board and the Consumer Duty Champion is also now in place. This will ensure the transition from the current customer governance of Treating Customers Fairly to the Consumer Duty which covers the way we interact with our customers, business partners and suppliers under a new Principle and Cross Cutting Rules.

The Board monitors material outsourcing arrangements and relationships with key suppliers through regular updates from the executive team. The Audit Committee reviews supplier payment practices annually.

The Company is active in the communities in which it operates and a detailed report on the Company's community activities was provided to the Board in December. The impact of the Company's operations on the environment is also considered and the Company's Climate Action group aims to promote environmental awareness and reduce the Company's impact on the environment. Further details of the Company's community activities and its energy usage are provided in the Report of the Directors.

By order and approval of the Board.

AfVil

Annabel Wilson
Company Secretary
16 March 2023

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

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the underwriting of non-life insurance business in the UK. The business conducted primarily relates to the insurance of motor, fire and other damage to property, liability, accident and health, and miscellaneous risks.

FUTURE DEVELOPMENTS

Information regarding the future developments of the Company is contained in the Strategic Report.

DIVIDENDS

No dividend was paid in 2022 in respect of 2021 (2021: £nil paid in respect of 2020).

FINANCIAL RISK MANAGEMENT

Disclosures relating to financial risk management are included in note 2 and are incorporated into this report by reference.

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements are set out below.

DIRECTORS	John Allen	(appointed 31 January 2023)
	Nicholas Caplan [2]	(resigned 31 January 2023)
	Stephen Clarke [23]	
	Jane Dale [2]	
	Thierry Francq [1]	Chair (from 8 December 2022)
	Adrian Furness	
	James Gearey	(resigned 31 August 2022)
	François Josse [1]	(resigned 20 December 2022)
	Maria Leighton	(resigned 31 July 2022)
	Christopher Moat [2]	
	Dominique Salvy [1]	(resigned 8 December 2022 as Director and Chair)
SECRETARY	Annabel Wilson	

[1] Non-Executive Directors
[2] Independent Non-Executive Director
[3] Senior Independent Non-Executive Director

Stephen Clarke and Jane Dale retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

None of the Directors had an interest in the share capital of the Company or its parent companies during the year.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A Group company has purchased insurance to indemnify the Company's Directors against liability in respect of proceedings brought by third parties against them in their capacity as a Director, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provisions remained in force throughout the year and as at the date of approval of this Report of the Directors. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period in office.

BUSINESS RELATIONSHIPS

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers and customers are set out in the Strategic Report (section 172 statement).

CORPORATE GOVERNANCE

Whilst not subject to the UK Listing Rules, an external assessment of the Board's performance was undertaken in 2019 against the principles and provisions of the Code. The evaluation found no major areas of non-compliance. Where differences were identified, the external assessor reported that the Board offered reasonable explanations for any areas of non-compliance and showed that working practices were designed to achieve the principles of good governance defined in the Code by other means. Recommendations and ideas for future improvement proposed by the external assessor build on the conclusion of the evaluation that the Board is effective and committed and one which exercises an appropriate degree of scrutiny over the executive.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee is a sub-committee of the Board and is chaired by an Independent Non-Executive Director. The principal purposes of the Committee are to:

- Oversee the design, implementation and operation of the Company's remuneration policy and practices;
- Lead the process for the appointment of Directors and executives; and
- Evaluate the balance of skills, knowledge and experience of the Board and approve succession plans to ensure the appropriate composition of Executives and the Board and to implement the Company's strategy in the near and longer term.

The Committee covers the Company as well its key associated operating companies and the holding company in the UK. This includes Covéa Insurance Services Limited, the service company which provides the employees managing the business and processes for the Company.

The Committee met ten times in 2022 with a number of shorter additional meetings to cover ad hoc matters. Meetings are supported by the Chief Executive and the Company Secretary. The key matters covered in 2022 were:

- Review of the remuneration policy and recommendation for Board approval;
- Approval of bonus and salary (including long term incentive plan) for all staff and the executive team;
- Review of proposed Board and executive appointments and recommendation for Board approval; and
- Approval of Board, executive and senior manager succession plans.

The People Director contributed to a number of meetings, particularly where senior management succession and employee engagement were on the agenda. The Independent Non-Executive Directors who are not members of the Committee continue to be consulted on relevant matters, particularly succession planning and executive recruitment.

AUDIT COMMITTEE

The Audit Committee is established to ensure that there is an appropriate control and governance framework in place. Responsibilities include oversight of the financial reporting process, the external audit function, the system of internal financial controls and the Internal Audit function.

At 31 December 2022, the Audit Committee comprised four members, all of whom are Independent Non-Executive Directors.

The Chief Executive, the Chief Risk Officer, the Chief Financial Officer, the Chief Actuary and representatives of the Company's internal and external auditors are normally invited to attend meetings of the Committee. At each meeting that is attended by them, the Committee has the opportunity to meet with the external and/or internal auditors without an Executive Committee member being present to discuss the auditors' views on the control environment and significant judgements or estimates made by management.

In 2022, the Audit Committee met six times and the attendance rate of members was 97%.

ASSET ALLOCATION COMMITTEE

The Asset Allocation Committee is established to ensure the appropriate management of the Company's investment portfolio. The Committee manages asset allocation and has responsibility for appointing and monitoring the performance of fund managers, a responsibility it discharges through oversight of the Company's Investment Committee. The Committees also ensure that appropriate processes and controls are in place for the governance of investments. On 30th January 2023 the Asset Allocation Committee and Investment Committee merged into a single entity renamed 'Investment Committee'

At 31 December 2022, the Asset Allocation Committee comprised three members, of whom one is an Independent Non-Executive Director.

In 2022, the Asset Allocation Committee met three times and the attendance rate of members was 80%.

RISK COMMITTEE

The Risk Committee is established to ensure an independent oversight of risk and capital adequacy. The Committee oversees the Company's Risk Governance Framework and is responsible for the oversight of the Own Risk and Solvency Assessment, the Risk Management system, the Internal Control system and the Compliance system.

At 31 December 2022, the Risk Committee comprised seven members, of whom four are Independent Non-Executive Directors.

In 2022, the Risk Committee met five times and the attendance rate of members was 86%.

TECHNOLOGY COMMITTEE

The Technology Committee has responsibility for establishing and overseeing the Company's technology strategy and any significant investments in support of that strategy. The Committee supports the Risk Committee in overseeing the Company's exposure to, and management of, technology risk. On 30th January 2023 the Technology Committee was dissolved, the subject matter going forward to be covered by the Board or the Risk Committee.

At 31st December 2022, the Technology Committee comprised six members, of whom two are Independent Non- Executive Directors.

In 2022, the Technology Committee met five times and the attendance rate of members was 73%.

EXECUTIVE COMMITTEE

The day-to-day management of the Company is delegated by the Board to the Executive Committee.

The Committee, chaired by the Chief Executive, has responsibility for implementing the Company's strategy and ensuring that the Company performs in line with agreed strategies and financial plans. The Committee ensures that an effective internal control environment is in place and that the risks facing the Company are appropriately and effectively managed in accordance with the Board-approved Risk Appetite. The Committee is also responsible for ensuring the Company operates within regulatory requirements and continuously monitoring its solvency position.

COMMUNITY ENGAGEMENT

The Company actively seeks to create a positive impact in the communities in which it operates, creating opportunities that make real and lasting changes to people's lives. Employees are actively supported to participate in the Company's volunteering programme, which provides paid leave for employees who volunteer with our charity partners, or a charity of their choice, enabling them to give back to the causes they care about. In 2022, our community partners included Business In The Community, Stop Hate UK, Stonewall and the Business Disability Forum. Community activities in 2022 also included support for Ukraine, Action for Children and Macmillan Cancer Support.

In continuing to support our consumer community, we offer a translation service to support customers where English may not be their preferred language, Sign Live for deaf customers and now run all our documents through both readability and cognitive learning platforms ensuring accessibility for all. Other activities include an outreach program with schools and colleges to support social mobility and provide opportunities for individuals from challenging backgrounds.

CARBON DIOXIDE EMISSIONS

In the period covered by this report, the Company affirmed its desire to align itself with the ABI's Climate Change Roadmap and associated targets. These include a 50% reduction in scope 1 emissions by 2030 with the aim of being net carbon neutral by 2050.

The wide-ranging review commissioned by the Executive Committee to inform the Company's climate strategy and the roadmap to achieve its climate ambitions was concluded and presented in the year. The Company is considering the actions needed to achieve its desire to align itself with the ABI's Climate Change Roadmap and associated targets, and to move towards using SBT measures.

During the year, energy consumption across the Company's three main offices reduced as did the assessment of the associated emissions. This is thought to be the result of the Company reducing the operational capacity of the offices to reflect the increased move to hybrid working and lower attendance at the offices.

The Company acknowledges the need to progress the monitoring and understanding of its current carbon footprint. Carbon intensity reporting is now provided as a matter of course by the Company's investment managers and is discussed regularly in Investment Committee meetings. The Company has a Climate Action Team, with Executive Committee sponsorship, who actively undertake and implement strategies for behavioural change across our employees.

CARBON DIOXIDE EMISSIONS (CONTINUED)

In accordance with the Streamlined Energy and Carbon Reporting regulations, the Company reports its carbon emissions from energy use by the UK group's buildings and employees' business travel. The Company is aligned with the Greenhouse Gas Protocol and Environment Reporting Guidelines including Streamlined Energy and Carbon Reporting regulations. The Company is utilising standard conversion factors as obtained from the Department for Environment, Food and Rural Affairs (2021).

In 2022, data was collated on energy use for the Company's three main offices and estimated energy usage in its smaller offices based on average usage per square foot of office space. Square footage of the main offices represents 95% of total office space. For travel, 49% of the total value of transactions was analysed for details of mileage covered. For the remaining 51% of the value of transactions where details were difficult to obtain, mileage was estimated based on average cost per mile, always taking a prudent approach.

Energy Consumption in kWh and carbon dioxide emissions in tonnes, tonnes per FTE

	2022	2021
Energy Consumption (kWh)		
Scope 1 – Natural Gas (kWh)	1,461,694	1,742,254
Scope 2 – Electricity (kWh)	2,292,626	2,289,057
Total Scope 1 and 2 Energy Consumption excluding Direct Transport (kWh)	**3,754,320**	**4,031,311**
Scope 1 – Direct Transport (kWh)	577,941	291,211
Total Scope 1 and 2 Energy Consumption (kWh)	**4,332,261**	**4,322,522**
Emissions Assessment (tCO^{2}e)		
Scope 1 – Combustion of fuel and operation of facilities - Natural Gas (tCO^{2}e)	267.7	319.1
Scope 2 – Electricity purchased and heat and steam generation - Location Based (LB) (tCO^{2}e)	486.8	486.0
Total Scope 1 and 2 emissions excluding Transport (tCO^{2}e)	**754.5**	**805.1**
Scope 1 – Combustion of fuel and operation of facilities – Direct Transport (tCO^{2}e)	136.9	69.0
Scope 3 – Indirect emissions – Indirect Transport (tCO^{2}e)	54.2	20.0
Total Scope 1, 2 and 3 emissions (tCO^{2}e)	**945.6**	**894.1**
Intensity Metric Assessment		
Intensity Ratio (Scope 1-3)	0.56	0.50

MODERN SLAVERY ACT

The Company issued its first statement in 2017, setting out the steps it actively takes to ensure that slavery and human trafficking is not occurring in any part of its business or its supply chain. The statement is reviewed annually and is published on the Company's website.

EMPLOYEES

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by an associated service company, CISL. The Company supports and applies the employment policies adopted by CISL.

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the relevant aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

EMPLOYEES (CONTINUED)

Employee involvement
Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through briefing groups and notifications to employees, with increased focus given to this during the year's challenging working conditions.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the persons who is a Director at the date of this Report confirms that:

- As far as each of them is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each has taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

The Company intends to run a competitive audit tender exercise ahead of the next year end, in which PricewaterhouseCoopers LLP will be invited to participate. The outcome of the tender exercise and a resolution concerning the appointment of auditors will be proposed at the Annual General Meeting.

GOING CONCERN

The Directors believe that the Company is well placed to manage the risks facing it. Emerging risks together with associated sensitivity analysis are considered by the Risk Committee and in the Company's ORSA. After making enquiries, the Directors are satisfied that the Company has adequate cash and capital resources, following the capital injection from the shareholder in the year, to continue as a going concern for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

PAYABLES PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. The Company's creditor payment terms are normally within 30 days. The average number of days taken by the Company to make payments to suppliers is within 30 days.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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 United Kingdom Accounting Standards, comprising FRS 102, 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 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 also 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.

By order and approval of the Board.

Annabel Wilson AWL
Company Secretary
16 March 2023

Independent Auditors' Report to the Members of Covea Insurance plc
For the Year Ended 31 December 2022

Report on the audit of the financial statements

Opinion

In our opinion, Covea Insurance plc'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 loss for the year ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 (the "Annual Report"), which comprise: the Company's Statement of Financial Position as at 31 December 2022; the Company's Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

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.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

Covea Insurance plc is a general insurance company with business conducted principally in the insurance of motor, fire and other damage to property, liability, accident and health, and miscellaneous risks. The Company operates in a highly competitive UK market which has been impacted over the last few years by political, legislative and regulatory uncertainty and high claims inflation. During 2022 the company has continued to be impacted by challenging market conditions and other factors such as economic pressure in the UK.

Overview

Audit scope

- Our work to address the audit risks that are inherent to the business is supported by our in-house specialists, with our approach consisting of a blend of controls and substantive testing .

Key audit matters

- Valuation of gross insurance contract liabilities.

Materiality

- Overall materiality: £8.5 million (2021: £8.4 million) based on 1% of Gross written premium.
- Performance materiality: £6.4 million (2021: £6.3 million).

The scope of our audit

Our audit scope has been determined to provide coverage of all material financial statement line items.

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 matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of gross insurance contract liabilities Valuation of gross insurance contract liabilities (£936.7m (2021: £830.4m)) Refer to Note 1 (Accounting Policies) and Note 13 (Claims Outstanding) to the financial statements. The Company's financial statements include liabilities for the estimated cost of settling general insurance claims. These are included within claims outstanding. The estimation of these insurance contract liabilities involves a significant degree of judgement. The liabilities are based upon management's best estimate of the ultimate cost of all claims incurred but not settled at the year end, whether reported or not, together with the related claims handling costs. A range of methods, including paid and incurred chain ladder and estimated loss ratio approach, may be used to determine these provisions. Underlying these methods are a number of explicit and implicit assumptions relating to claims incurred but not reported (IBNR), periodic payment orders (PPOs) and the ultimate severity of large bodily injury claims. The latter of which result in higher individual claims reserves and are more judgemental in terms of the development of the ultimate losses which will be incurred. In the current year we also focussed on the magnitude of uncertainty in respect of rising inflation in claims costs and its impact on assumptions adopted in the determination of claims IBNR.	Our work to address the valuation of the general insurance claims liabilities was supported by our in-house non-life actuarial specialists, and included the following procedures: • We understood and assessed relevant controls in relation to the reserving process and tested specific controls; •We tested the completeness, consistency and accuracy of underlying data and reconciled it to the data used in the actuarial processes; • Using our actuarial specialist team members, we evaluated the methodology and assumptions used by management to estimate the most judgemental components of the claims liabilities. We took into account any changes to the types of risks underwritten by the business, which could increase the level of uncertainty and judgement in the estimates. For lower risk categories of reserves we considered trends in various indicators such as paid to incurred ratios, incurred to ultimate ratios and other Key Performance Indicators (KPIs). • Using our actuarial specialist team members, we performed independent re-projection testing by selecting our own methodology and assumptions to estimate the reserves for some of the most significant components of the claims liabilities; • For the remaining classes we evaluated the methodology and assumptions applied, or performed key indicator tests to identify and investigate any anomalies; • With respect to inflation we performed a fully independent exercise to estimate the impact of the higher inflationary environment on our reserve estimates; • Considered whether any of our audit procedures gave rise to an indication of management bias in the estimates; and • Assessed the disclosures in the financial statements. Based on the work performed, no evidence was identified to suggest issues with respect to the completeness and accuracy of claims data. Furthermore, we found the methodology and assumptions used in estimating the costs of claims were appropriate and 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. Using the outputs of our risk assessment, along with our understanding of the Company's structure, we scoped our audit based upon the significance of the results of individual segments of business and their distribution channel relative to the overall Company result. The Company offers a range of general insurance products for individuals and small and medium-sized businesses, distributed directly to customers and through a network of intermediaries and brokers, with all material insurance contracts underwritten in the United Kingdom. In scoping our audit, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items in the financial statements.

The impact of climate risk on our audit

In designing our audit, we have considered the impacts that climate change could have on the Company, including the physical and transitional risks that could arise. We have made enquiries of management in order to understand the extent of the impact of climate change risks and the statements made by the entity in the Annual Report. We have assessed the risks of material misstatement to the Annual Report as a result of climate change and concluded that for the year ended 31 December 2022, the main audit risks are related to disclosures included within the 'other information' through the Report of the Directors. As a result of this assessment, we concluded that there was no impact on our key audit matters.

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	£8.5 million (2021: £8.4 million).
How we determined it	1% of Gross written premium
Rationale for benchmark applied	Gross premiums written is a key metric used by management and stakeholders to assess the performance of the entity and revenue is a generally accepted auditing benchmark. Furthermore, in our professional judgement, we consider that using gross premiums written as a benchmark gives a level of materiality that is appropriate given the size and risk profile of the business.

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 £6.4 million (2021: £6.3 million) 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 at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £427,000 (2021: £419,000) 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:

- Obtained management's updated going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considered management's assessment of the regulatory Solvency coverage and liquidity in management's future forecast;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern.

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

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.

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 Report of the Directors, 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 Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors 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 Report of the Directors.

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, 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 UK regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), 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 inappropriate journal entries to increase revenue or reduce expenditure of the Company and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance claims liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Reading key correspondence with and reports to the Prudential Regulation Authority and / or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee and the Technical Provisions Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of general insurance claims liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 Audit Committee, we were appointed by the directors on 27 June 2007 to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 16 years, covering the years ended 31 December 2007 to 31 December 2022.

Philip Watson

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2023

Statement of Comprehensive Income
For the Year Ended 31 December 2022

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	2022 £'000	2021 Restated[1] £'000
Earned premiums, net of reinsurance			
Gross premiums written	4	855,040	839,279
Outward reinsurance premiums		(258,278)	(238,438)
Net premiums written		596,762	600,841
Change in the gross provisions for unearned premiums	4,21	1,896	(57,951)
Change in the provision for unearned premiums, reinsurers' share		(371)	5,801
Change in the net provision for unearned premiums	21	1,525	(52,150)
Earned premiums, net of reinsurance		**598,287**	**548,691**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	(522,990)	(437,625)
Reinsurers' share		149,542	119,851
		(373,448)	(317,774)
Change in the provisions for claims			
Gross amount	4,21	(106,362)	7,031
Reinsurers' share		39,786	(11,332)
	21	(66,576)	(4,301)
Claims incurred, net of reinsurance		**(440,024)**	**(322,075)**
Other technical income	5	7,362	7,360
Net operating expenses	6	(299,964)	(228,922)
BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS		**(134,339)**	**5,054**

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

Statement of Comprehensive Income
For the Year Ended 31 December 2022

NON-TECHNICAL ACCOUNT

	Note	2022	2021 Restated
		£'000	£'000
Balance on the technical account - general business		(134,339)	5,054
Investment return	7	(29,556)	(677)
Exchange adjustments		243	(277)
(Loss)/Profit on ordinary activities before tax		(163,652)	4,100
Tax credit attributable to (loss)/profit on ordinary activities	10	18,105	2,047
(Loss)/Profit for the financial year		**(145,547)**	**6,147**
Other comprehensive (loss)/income for the year			
Revaluation of owner-occupied properties	16	(4,620)	3,767
Total comprehensive (loss)/ income for the year		**(150,167)**	**9,914**

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

Statement of Financial Position
For the Year Ended 31 December 2022

ASSETS	Note	2022	2021 Restated[1]
		£'000	£'000
Investments	12	757,372	679,277
Reinsurers' share of technical provisions			
Provision for unearned premiums		12,012	12,383
Claims outstanding	13	419,809	380,023
		431,821	392,406
Debtors			
Debtors arising out of direct insurance operations	14	180,877	184,458
Debtors arising out of reinsurance operations		29,335	21,017
Other debtors	15	67,406	88,774
		277,618	294,249
Other assets			
Tangible assets	16	16,601	24,698
Intangible assets	17	-	-
Cash at bank and in hand		157,394	189,227
		173,995	213,925
Prepayments and accrued income			
Deferred acquisition costs	18	93,350	93,023
Other prepayments and accrued income		2,923	2,615
		96,273	95,638
Total assets		**1,737,079**	**1,675,495**

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

Covea Insurance plc **Registered number: 00613259**

Statement of Financial Position
For the Year Ended 31 December 2022

LIABILITIES	Note	2022	2021 Restated[1]
		£'000	£'000
Capital and reserves			
Called up share capital	19	265,224	207,224
Revaluation reserve		-	4,620
Retained earnings		1,376	146,923
Total equity		**266,600**	**358,767**
Subordinated liabilities	20	55,000	-
Technical provisions			
Provision for unearned premiums	21	401,193	403,089
Claims outstanding	13,21	936,730	830,368
		1,337,923	1,233,457
Creditors			
Creditors arising out of direct insurance operations		26,057	23,913
Creditors arising out of reinsurance operations		18,031	25,148
Other creditors including taxation and social security	23	26,931	26,889
		71,019	75,950
Accruals and deferred income	24	6,537	7,321
Total liabilities		**1,470,479**	**1,316,728**
Total equity and liabilities		**1,737,079**	**1,675,495**

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

The notes on pages 26 to 58 are an integral part of these financial statements.

The financial statements on pages 21 to 58 were approved by the Board of Directors on 16 March 2023 and were signed on its behalf by:

Adrian Furness
Chief Executive
Covea Insurance plc
Registered number: 00613259
16 March 2023

Statement of Changes in Equity
For the Year Ended 31 December 2022

	Note	Called up share capital	Revaluation reserve	Retained earnings	Total equity
				Restated[1]	Restated[1]
		£'000	£'000	£'000	£'000
Balance as at 1 January 2021 originally presented		**207,224**	**853**	**130,522**	**338,599**
Change in accounting policy[1]				10,254	10,254
Balance as at 1 January 2021 restated		**207,224**	**853**	**140,776**	**348,853**
Total comprehensive income for the year originally presented		-	-	7,878	7,878
Change in accounting policy[1]				(1,731)	(1,731)
Revaluation of owner-occupied properties	16	-	3,767	-	3,767
Balance as at 31 December 2021 restated		**207,224**	**4,620**	**146,923**	**358,767**
Total comprehensive loss for the year		-	-	(145,547)	(145,547)
Revaluation of owner-occupied properties	16	-	(4,620)	-	(4,620)
Additional share capital issued		58,000	-	-	58,000
Balance as at 31 December 2022		**265,224**	**-**	**1,376**	**266,600**

[1] Certain prior year balances have been restated to reflect the retrospective application of the change in accounting policy for levies as detailed in note 3.

1. ACCOUNTING POLICIES

General Information

Covea Insurance plc is a general insurance company offering a range of products for individuals and small and medium-sized businesses, distributed directly to customers and through a network of intermediaries, brokers and affinity partners across the UK. It is based in eight locations across the country and is a member of one of Europe's largest mutual insurance groups, Covéa.

The Company is an unlisted public company incorporated and registered in England and Wales and the address of its registered office is Norman Place, Reading, Berkshire, RG1 8DA.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The financial statements have been prepared in accordance with the requirements of Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to Insurance Companies.

Exemptions for Qualifying Entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has taken advantage of the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; and
- Related party disclosures.

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented other than the accounting policy in respect of certain levies which has been changed in the year, full details are provided in note 4, and the accounting policy for subordinated debt which is new this year.

Basis of Preparation

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

The financial statements have also been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investments and freehold land and buildings, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Where considered appropriate, the prior year disclosures are amended to be consistent with the current year disclosures. Certain prior year comparatives have also been restated for the change in accounting policy for levies as described in note 3.

Going Concern

The Directors believe that the Company is well placed to manage the risks facing it. In arriving at their conclusion, the Directors considered the current and future risks and the stress tests, as reported in the Company's ORSA. After making enquiries, the Directors are satisfied that the Company has adequate cash and capital resources, following the capital injection from the shareholder in the year, to continue operating for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

1. ACCOUNTING POLICIES (CONTINUED)

Insurance Contracts

The Company issues insurance contracts, being contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario and that those benefits exceed those that would be payable if no insured event occurred. The Company's insurance products are classified as insurance contracts and primarily cover the following types of insurance risks: Motor, Fire and other damage to property, Liability, and Accident and Health.

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

Premiums

Premiums written comprise the total premiums receivable for the whole period of cover under contracts incepting during the reporting period, together with adjustments arising in the reporting period to premiums receivable in respect of business written in previous reporting periods. Where premiums written during the year have not been notified by the financial year end a pipeline amount is estimated.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or intermediated reinsurance business being reinsured.

Unearned Premiums

Premiums written are recognised as earned income over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The provision for unearned premium is calculated by the policy administration systems daily with the exception of some brokers where the unearned premium is calculated manually.

Acquisition Costs

Acquisition costs, comprising commission and other direct costs related to the acquisition of insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the reporting date.

Commission deferred in this way is released over the remaining period of the policy.

Claims Incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any other adjustments to claims from previous years.

Claims Provisions and Related Reinsurance Recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- Changes in the Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- Changes in the legal environment;
- The effects of inflation;
- Changes in the mix of business;
- The impact of large losses; and
- Movements in industry benchmarks.

1. ACCOUNTING POLICIES (CONTINUED)

Claims Provisions and Related Reinsurance Recoveries (continued)

A component of these estimation techniques is the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstance as reported, any information available from loss adjusters, and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident period.

In addition to the best estimate claims provisions derived using the techniques described above the Company maintains a margin for uncertainty to provide for volatility in the underlying provisions. This provision is based on a proportion of best estimate reserves, the proportion applied being periodically reviewed by the Audit Committee, overlaid with adjustments based on management judgement if appropriate.

Provisions are calculated gross of any reinsurance recoveries.

Unexpired Risks Provision

Provision is made where the cost of claims and expenses forecast to arise after the end of the reporting period from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The assessment of whether a provision is necessary is made by considering separately each category of business, determined to share common characteristics for assessing risk and setting premiums, on the basis of information available.

Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company, that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments if they arise.

The amounts that will be recoverable from reinsurers are estimated based upon the gross claims provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies and consideration of the terms of the underlying agreement. Provision is made where recoverability is deemed doubtful. The reinsurers' share of claims incurred, in the Statement of Comprehensive Income, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Statement of Comprehensive Income as 'Outward reinsurance premiums' when due.

Property and Accident Business

Property and accident business is "short tail", in that there is not a significant delay between the occurrence of a claim and a claim being reported to the Company. The costs of claims notified to the Company as at the Statement of Financial Position date are estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Motor Business

The estimated cost of motor claims, excluding the cost of personal injury claims, is calculated by reference to the historical development of paid and incurred claims and the implied loss ratios for each accident year, as well as for less developed periods, by reference to the projected number of claims, based on statistics showing how the number of notified claims has developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above.

The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below.

1. ACCOUNTING POLICIES (CONTINUED)

Liability Business

These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to incurred but not reported claims. Claims estimates for liability business are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the Statement of Financial Position date.

Discounted Claims Provisions

Claims which have been, or are expected to be, settled using a Periodic Payment Order (PPO) give rise to a long-term liability linked to the mortality of the claimant. For these claims, the outstanding claims provisions are discounted to take account of the expected investment income receivable on the assets held to cover the provisions until final settlement of the liability. All other liabilities are undiscounted.

Investment Return

Interest income is recognised on an accruals basis, as are investment expenses.

Investment return, comprising investment income and realised and unrealised investment gains and losses, and investment expenses are included within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

Investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company classifies its financial investments into the following categories:

- Equities and units in unit trusts – at fair value;
- Debt securities and other fixed-income securities – at fair value; and
- Deposits with credit institutions – at amortised cost.

Equities and units in unit trusts, Debt securities and other fixed interest securities are classified at fair value through profit or loss from inception because they form part of an investment portfolio that is managed, and whose performance is evaluated by the Company's key management personnel, on a fair value basis. Deposits with credit institutions are classified at amortised cost.

The fair values of listed investments are based on bid price or at a single price, if only one price is quoted, at the reporting date or the last trading day before that date. The fair values of other unlisted investments, for which no active market exists, are established by the Directors using valuation techniques. These include use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other pricing models. Deposits with credit institutions are valued at cost plus interest accrued at the applicable interest rate less any interest receipts.

Net gains or losses arising from changes in the fair value of financial assets are presented in the Statement of Comprehensive Income within "Unrealised gains on investments" or "Unrealised losses on investments" in the period in which they arise.

Unrealised gains and losses represent the difference between the fair value of financial assets at the reporting date and the original cost, or, if they have been previously valued, those valuations at the previous reporting date. The movement in unrealised gains and losses recognised through the Statement of Comprehensive Income in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investments are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash Flow Statement

In accordance with FRS 102, the Company has not presented a cash flow statement as the Company's cash flows have been consolidated with those of its ultimate parent company, Covéa Sgam (see note 26).

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

Taxation charge/credit for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

<u>Current Tax</u>

Current tax is the amount of corporation tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

<u>Deferred Tax</u>

Deferred tax arises from timing differences that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits within a reasonably foreseeable timeframe.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

<u>Group Tax Relief</u>

Group tax relief is generally surrendered to/received from other Group companies for no consideration. In specific circumstances, individual Group companies may reach agreement between themselves to surrender and/or receive group relief for consideration. Should group relief be surrendered to/received from other group companies for consideration, the consideration paid will reflect, at a minimum, the corporation tax amounts surrendered and/or received. These amounts are reported as expenses or benefits within the tax on profit/(loss) on ordinary activities reported in the Statement of Comprehensive Income.

Tangible Assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

At the end of each reporting period the assets' residual values and useful lives are reviewed and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Land and buildings

Freehold and leasehold properties are carried at depreciated fair value or depreciated initial cost if a valuation has yet to be carried out. The fair value is determined every three years by an independent chartered surveyor. Depreciation is applied to the latest fair value in accordance with section (iii) below and a review is carried out at each reporting date between valuations to determine whether there are any indications of impairment. If there are indications of impairment the carrying value of the property is reduced to a valuation based on external evidence where available, or on management's judgement.

On revaluation:

- Increases in value above carrying value, to the extent not reversing prior losses recognised in the Statement of Comprehensive Income, are recognised in the revaluation reserve; and
- Decreases in value, to the extent not reversing prior gains recognised in the revaluation reserve, are recognised in the Statement of Comprehensive Income.

(ii) Fixtures, fittings and equipment

Fixtures, fittings and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

1. ACCOUNTING POLICIES (CONTINUED)

Tangible Assets (continued)

(iii) Depreciation and residual values

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives. Estimated useful lives are as follows unless a specific period is identified for a particular asset:

Computer equipment	3 to 5 years
Motor vehicles	3 to 5 years
Fixtures, fittings and equipment	3 to 5 years
Buildings - Freehold	30 years
Buildings - Leasehold	50 years
Office refurbishment - Freehold	10 years
Office refurbishment - Leasehold	50 years (or term of lease if less)

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iv) Subsequent additions and major components

Subsequent costs, including major inspections, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(v) Assets under construction

Assets under construction are stated at cost. These assets are not depreciated until they are available for use.

(vi) Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Comprehensive Income and included in administrative expenses.

On disposal or retirement from use of property carried at depreciated fair value, the aggregate movement in value recorded in the revaluation reserve for the property being disposed of/retired from use is transferred to Retained Earnings via a reserves transfer.

Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Software	3 to 5 years

Amortisation is charged to administrative expenses in the Statement of Comprehensive Income. Where factors such as obsolescence, reduced useful life, technological advancements, or changes in how the intangible asset is used indicate that the residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred.

1. ACCOUNTING POLICIES (CONTINUED)

Intangible Assets (continued)

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- the Company intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Foreign Currencies

UK Pound Sterling is the functional and presentational currency of all activities.

Transactions in foreign currencies are translated at the rate prevailing at the end of the month in which they occur or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date or if appropriate at the forward contract rate. Exchange differences arising from transactions are taken to the Statement of Comprehensive Income.

Operating Leases

At inception of lease contracts, the Company assesses the substance of the arrangement in order to determine whether the lease is an operating lease or a finance lease.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the Directors passing a written resolution.

Industry Levies

Industry levies are accounted for to match the cost of the levy to the underlying risk to which the levy relates. Amounts are accrued or prepaid depending on the timing of the levy payment compared with the underlying risk to which it relates.

Impairment of Non-Financial Assets

At each Statement of Financial Position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell, and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter, any excess is recognised in the Statement of Comprehensive Income.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Insurance receivables and payables

Insurance receivables and payables are recognised when due. Debtors arising out of direct insurance operations include outstanding premiums due from intermediaries or where the policyholders have elected to pay in instalments. The creditworthiness of intermediaries is assessed on inception, and periodically thereafter, using external sources where available, and that of policyholders through the underwriting process. Creditors arising out of direct insurance operations include amounts due to intermediaries under profit sharing arrangements.

1. ACCOUNTING POLICIES (CONTINUED)

Cash at bank and in hand

Cash at bank and in hand comprises cash balances, deposits held at call with banks and investments in short term liquidity funds.

Provisions and Contingencies

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provision is not made for future operating losses unless an onerous contract is identified in which case provision is made.

Provisions for levies are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy.

Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Subordinated liabilities

Subordinated liabilities on the balance sheet are recognised at the amount borrowed less any subsequent capital repayments. Interest is accrued on the balance sheet and recognised within operating expenses in the income statement in line with the terms of the loan note.

Significant Accounting Judgements, Assumptions and Estimates

The Company makes judgements and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are addressed below.

Significant accounting judgements and assumptions

(i) Insurance risk

Judgement is exercised in assessing whether the Company's insurance products and associated reinsurance contracts transfer significant insurance risk to allow them to be classified as insurance contracts. The valuation of insurance contract liabilities requires management judgement in applying the appropriate accounting treatment and assumptions. Significant insurance risk is as defined in the accounting policy for Insurance Contracts. Further details on Insurance Risk are provided in note 2.

(ii) Claims incurred and outstanding

The estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled at the reporting date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the reporting date. The number of claims expected and their anticipated final cost are projected using the Company's statistical history, amongst other factors.

Projections are made separately for each class of business, based on information available up to one month after the reporting date. It is assumed that the Company's statistical history will provide a suitable base for projection, and that trends included in the data will be maintained. The impacts of case law and legislation are also taken into account. Their impact on the statistical base and current reserves is assessed.

1. ACCOUNTING POLICIES (CONTINUED)

(ii) Claims incurred and outstanding (continued)

Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the Technical Account - General Business of later years. Salvage and other recoveries are included within claims outstanding.

The impacts of Covid-19 and the consequent lockdowns in 2020 and 2021 required significant judgement to be applied in arriving at the reported claims liabilities in respect of business interruption insurance and the associated reinsurance coverage in those years. Whilst the reserves booked were deemed reasonable, management felt it prudent to hold reserves in addition to the actuarially assessed best estimates and established a margin for uncertainty in 2020 to reflect the significant uncertainty surrounding the impacts of Covid-19 at that time. As the impacts became clearer throughout 2021 the majority of the margin was released with the residual balance being released in 2022. Judgement continues to be exercised over the potential recoverability of amounts due on reinsurance related to business interruption claims.

The calculation of the liability due under a Periodic Payment Order ("PPO") is dependent on a number of judgements and assumptions including the discount rate used and a projection of life expectancy, which is unlike other general insurance liabilities. In addition, the Ogden rate assumed in determining alternative lump sum settlements is also a matter of judgement. The Company applies an Ogden discount rate of -0.25% in line with the announcement by the Lord Chancellor on 15 July 2019. Further information, including the sensitivity of the profit/(loss) on ordinary activities before tax and Total equity to defined movements in the Ogden discount rate, is provided in note 2.

(iii) Impairment of property

The Company's accounting policy on the value of property carried as a tangible fixed asset is that it is formally revalued triennially with assessments carried out where there are indications of impairment, including prevailing market conditions, outside of this triennial cycle.

The Company's leasehold property in Halifax was formally revalued in the year and its carrying value adjusted to reflect the result of the valuation. The value of the Company's Reading office was assessed based on yield movements experienced in the Reading market but also taking into account unsolicited offers for the freehold of the property. These offers indicated that the judged impairment of the property's value was too low and the impairment was increased to reflect perceived market value of the property.

(iv) Recognition of deferred tax assets

The loss before tax recorded by the Company in the year has resulted in significant taxable losses and a potential deferred tax asset (DTA). Judgement has been exercised over the amount that is more likely than not to be recoverable over a reasonably foreseeable timeframe and hence can be recognised on the balance sheet, and conversely the amount to be disclosed as unrecognised. Consideration has been given to the one-off nature of elements of the loss, specifically the impairment of intangible assets recharged to the Company by its service company and recent investment performance, together with the outcome of the strategic review of the company and action taken to return the Company to profit by 2024. The amounts of DTA recognised and unrecognised are included in notes 10 and 22.

Significant accounting estimates

(i) Useful economic lives of tangible assets

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation, and the physical condition of the assets. See note 16 for the carrying amount of the tangible assets and page 30 for the useful economic lives for each class of assets.

(ii) Impairment of receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When management is assessing impairment of trade and other receivables, it considers factors including the current credit rating of the debtor, the ageing profile of receivables, and historical experience.

(iii) Pipeline premium

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and of estimated claims incurred but not reported in respect of the earned element.

1. ACCOUNTING POLICIES (CONTINUED)

Significant accounting estimates (continued)

(iv) Deferred tax asset

When calculating the amount of DTA to recognise on the balance sheet, both the level of certainty of the forecast profits against which the DTA would be released and the number of years over which the profits were reasonably foreseeable were estimated. The forecast profits were derived from the Company's business plan, which reflects the outcome of the strategic review, but a progressive uncertainty factor was applied to reflect that the accuracy of forecast results reduces over time. Estimates of profits elsewhere is the UK group were used to forecast group relief, and the use of losses restricted to 50% of taxable profits in excess of £5.0m.

2. RISK AND CAPITAL MANAGEMENT

Overview

This report presents information about the nature and extent of the risks arising from insurance contracts and financial instruments, and the Company's objectives, policies and processes for measuring and managing those risks.

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it. The insurance contracts issued by the Company expose it to insurance risk. As a result of trading, the Company is also exposed to financial risks from financial instruments and insurance contracts. Financial risk is categorised as credit, liquidity or market risk. The Company categorises other risks as strategic risk, emerging risk, operational risk and compliance risk.

As set out in the Strategic Report, the Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management policies. Management reports regularly to the Board on its activities.

The Company's risk management framework is established to identify and analyse the risks faced by the Company, set appropriate risk limits and controls, and monitor adherence to risk limits. The risk management framework consists of the risk appetite, risk management policies, risk registers and other MI to ensure the Company manages risks appropriately.

The risk appetite, risk management policies, and risk registers are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, ensures a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance within the Company's risk management framework and reviews its adequacy in relation to the risks faced by the Company.

As set out in the Strategic Report, the Company's Board establishes the risk appetite of the organisation.

For the purpose of managing risks, the Company classifies its risks into the following categories:

Strategic and Emerging Risks

The Company operates in highly competitive markets, which have changed in structure substantially over recent years, particularly in respect of distribution and technology. Continued changes are inevitable and will generate both risks and opportunities. Risks associated with climate change in particular are starting to emerge and the Company's risk management framework reflects this

Emerging and Strategic risks are captured within the ORSA process through the risk management framework. This consider the risks, opportunities and trends that are emerging and how the Company is and/or plans to respond to these risks should they arise.

Insurance Risk

The Company is exposed to insurance risk arising due to fluctuations in the timing, frequency, and severity of insured events, relative to expectations at the time of underwriting, and to fluctuations in the timing and amount of claim settlements and other insurance-related expenses. Claim settlements can also be affected by changes to the legal framework in which they are made and court procedures.

There is inherent uncertainty in the estimation of general insurance claim reserves as this process involves the projection of future events that are uncertain. The ultimate cost of claim settlements will therefore vary from our estimates

The Company has in place a range of procedures, systems and controls designed to manage and mitigate these risks, covering all aspects of its insurance activities; including underwriting and pricing, claims management, reserving and the use of reinsurance. Claims case estimates are reviewed on a regular basis and overall reserves are subject to internal actuarial review quarterly. This is supplemented by an annual external independent review.

The Company is exposed to risk on claim settlements due to the ongoing uncertainties associated with inflation, Brexit and the FCA pricing reforms implemented on 1 January 2022. As noted in the Principle Risks and Uncertainties section above, the Company put a number of workstreams in place to ensure that inflationary increases seen within the claims are factored into rating decisions within the decision-making framework. This will continue into 2023.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Process used to decide on assumptions

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and Initial Expected Loss Ratio (IELR) methods. This year, the Company has adopted additional methods specifically capturing inflation.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The IELR is an estimate of claims experience based on a premium exposure measure. It is generally used on recent accident years or new classes of business.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

Ogden discount rate

The estimation of technical provisions is the primary area of judgement where assumptions are used. The actuarial methods noted above and associated assumptions remain consistent with prior years, other than the Ogden discount rate, which was set at -0.25% in 2019 in line with the announcement by the Lord Chancellor on 15 July 2019.

Concentration risk analysis

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

						31 December 2022
Territory	Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
United Kingdom	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross	559,398	203,830	153,392	9,658	10,452	936,730
Net	257,723	132,387	118,701	7,039	1,071	516,921

						31 December 2021
Territory	Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
United Kingdom	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross	535,757	140,853	141,306	9,808	2,644	830,368
Net	240,704	95,623	106,441	7,379	198	450,345

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Sensitivity analysis

Various scenario analyses and sensitivities are presented to the Audit Committee alongside the internal actuarial reserves reviews when they are performed. The following table provides the sensitivity of the Profit/(Loss) on ordinary activities before tax and the Total equity to defined movements in the PPO discount rate, the life expectancy of PPO claimants, and changes to the Ogden discount rate:

	Increase in Profit on ordinary activities before tax		Increase in Total equity at 31 December	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Periodic Payment Orders (PPOs)				
Net Discount rate on PPOs reduced from -1% to -2%	(3,140)	(3,184)	(2,543)	(2,579)
Life expectancy of PPO claimants increased by 10 years	(3,087)	(3,022)	(2,500)	(2,448)
Ogden Discount Rate				
Reduces from -0.25% to -1.0%	(1,596)	(1,440)	(1,293)	(1,166)
Increases from -0.25% to 0.5%	1,840	1,662	1,490	1,346
Inflation				
Inflation experienced in 2022 continues throughout 2023	(9,193)		(7,446)	

The sensitivities apply tax at the current year tax rate and do not consider the interaction of unrecognised deferred tax asset as a result of carried forward tax losses.

The *inflation test considers only non-injury classes, and only unsettled claims in respect of 2022 and prior.*

Credit Risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Company is exposed to credit risk in respect of amounts recoverable from reinsurers and intermediaries, the financial assets held in the Company's investment portfolio, and cash held with banks.

Reinsurance and intermediaries

Once insurance contracts have been written, the Company uses reinsurance agreements to transfer an element of potential insurance risk exposure from contract liabilities. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a reinsurance claim, the Company remains liable for the payment to the policyholder. To manage this exposure the Company assesses reinsurer creditworthiness based on, amongst other factors, their external credit rating.

Investment portfolio and cash

The other principal source of credit risk arises from the assets held in the investment portfolio. The risk is that the investment counterparty gets into financial difficulties and the fair value of the asset diminishes or the income stream (e.g., dividends or interest payments) is not paid; alternatively, the counterparty becomes insolvent and the value of the asset is written off.

The investment portfolio contains a range of assets, including equities, corporate bonds and other fixed income securities, and cash deposits. The Investment Policy and Risk Appetite stipulate permitted investments and geographical territories, as well as detailing specific asset class and external credit rating exposure limits.

The Company's cash portfolio is deposited only with banks which are considered to provide good levels of security based upon external credit ratings. The maximum exposure to any single counterparty is also limited.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Company as at 31 December:

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

							31 December 2022
	AAA	**AA**	**A**	**BBB**	**Less than BBB**	**Non-rated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Government Bonds	67,737	282,323	60,046	-	-	-	410,106
Corporate Bonds	72,266	63,635	90,278	54,708	377	-	281,264
Deposits with credit institutions	-	-	25,023	-	-	-	25,023
Reinsurers' share of claims outstanding	-	277,400	142,029	89	-	291	419,809
Debtors arising out of direct insurance operations	-	-	-	-	-	180,877	180,877
Debtors arising out of reinsurance operations	-	7,440	21,699	184	-	12	29,335
Other debtors	-	-	-	-	-	67,406	67,406
Cash at bank and in hand	100,331	-	57,063	-	-	-	157,394
Total financial assets	**240,334**	**630,798**	**396,138**	**54,981**	**377**	**248,586**	**1,571,214**
Total %	**15%**	**40%**	**25%**	**4%**	**0%**	**16%**	**100%**

							31 December 2021
	AAA	**AA**	**A**	**BBB**	**Less than BBB**	**Non-rated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Government Bonds	42,006	263,378	-	-	-	-	305,384
Corporate Bonds	64,396	70,916	94,335	62,644	559	-	292,850
Deposits with credit institutions	-	-	25,004	-	-	-	25,004
Reinsurers' share of claims outstanding	-	255,389	123,176	1,159	-	299	380,023
Debtors arising out of direct insurance operations	-	-	-	-	-	184,458	184,458
Debtors arising out of reinsurance operations	-	12,553	8,102	351	-	11	21,017
Other debtors	-	-	-	-	-	88,774	88,774
Cash at bank and in hand	101,225	4,036	83,966	-	-	-	189,227
Total financial assets	**207,627**	**606,272**	**334,583**	**64,154**	**559**	**273,542**	**1,486,737**
Total %	**14%**	**41%**	**23%**	**4%**	**0%**	**18%**	**100%**

Liquidity Risk

Liquidity risk is the risk that the Company cannot make payments as they become due because it has insufficient assets in cash form.

The Company encounters potential liquidity risk exposures from its different business activities. These principally arise from its insurance contracts and the timing of the associated policyholder commitments. In the general insurance business there is the potential for increased demand for cash where actual claims exceed forecast, for example to meet claims resulting from the impact of adverse UK weather events.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Management of liquidity risk

The Board sets the Company's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Asset Allocation Committee and the Investment Committee, which approve the Company's liquidity risk appetite, policies and procedures. Management is responsible for managing the Company's liquidity position on a day-to-day basis. Reports, including exceptions and remedial action taken, are submitted regularly to management and the Asset Allocation Committee

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The risk exposure is managed using several methods and techniques, which include:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- Forecasting additional cash demands under stressed conditions and management actions to be taken to liquidate sufficient assets to meet the increased demands; and
- Appropriate matching of the maturities of assets and liabilities. The Company undertakes asset and liability management to ensure that the duration of liabilities is broadly matched by its assets within the risk appetite of the Company.

Maturity analysis

Financial assets

The maturity analysis presented in the table below provides an analysis of the carrying value of financial and reinsurance assets available to fund the payment of liabilities as they arise.

The estimated contractual net cash inflows for reinsurer's share of technical provisions is based on the undiscounted future cash inflows included in the measurement of the assets. The estimated cash inflows for investments and debtors (Debtors arising out of direct insurance operations – intermediaries, Debtors arising out of reinsurance operations, and Other debtors) reflects the earliest date on which the gross undiscounted cash flows could be received assuming conditions are consistent with those at the reporting date.

Financial liabilities and insurance contract liabilities

The maturity analysis presented in the table below reflects the estimated future contractual net cash outflows arising from the Company's financial liabilities and insurance contracts at the reporting date.

The estimated contractual net cash outflows for technical provisions is based on the undiscounted future cash inflows and outflows included in the measurement of the liabilities. The estimated cash outflows for subordinated liabilities and creditors (Creditors arising out of direct insurance operations, Creditors arising out of reinsurance operations, and Other creditors) reflects the earliest date on which the gross undiscounted cash flows could be paid assuming conditions are consistent with those at the reporting date.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

						31 December 2022
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000
Investments	757,372	292,855	59,557	435,213	40,052	827,677
Reinsurers' share of claims outstanding	419,809	116,899	119,262	73,296	213,495	522,952
Debtors arising out of direct insurance operations	180,877	180,877	-	-	-	180,877
Debtors arising out of reinsurance operations	29,335	29,335	-	-	-	29,335
Other debtors	67,406	67,406	-	-	-	67,406
Cash at bank and in hand	157,394	157,394	-	-	-	157,394
Total	**1,612,193**	**844,766**	**178,819**	**508,509**	**253,547**	**1,785,641**
Financial Liabilities						
Subordinated Liabilities	55,000			55,000		55,000
Claims outstanding	936,730	336,215	219,755	158,627	250,215	964,812
Creditors arising out of direct insurance operations	26,057	26,057	-	-	-	26,057
Creditors arising out of reinsurance operations	18,031	18,031	-	-	-	18,031
Other creditors including taxation and social security	26,931	26,931	-	-	-	26,931
Total	**1,062,749**	**407,234**	**219,755**	**213,627**	**250,215**	**1,090,831**

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

						31 December 2021
	Carrying amount	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Financial Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investments	679,277	150,666	156,640	342,810	47,294	697,410
Reinsurers' share of claims outstanding	380,023	116,741	119,262	74,576	210,395	520,974
Debtors arising out of direct insurance operations	184,458	184,458	-	-	-	184,458
Debtors arising out of reinsurance operations	21,017	21,017	-	-	-	21,017
Other debtors	88,774	88,774	-	-	-	88,774
Cash at bank and in hand	189,227	189,227	-	-	-	189,227
Total	**1,542,776**	**750,883**	**275,902**	**417,386**	**257,689**	**1,701,860**
Financial Liabilities						
Claims outstanding	830,368	330,331	219,755	158,273	246,907	955,266
Creditors arising out of direct insurance operations	23,913	23,913	-	-	-	23,913
Creditors arising out of reinsurance operations	25,148	25,148	-	-	-	25,148
Other creditors including taxation and social security	26,889	26,889	-	-	-	26,889
Total	**906,318**	**406,281**	**219,755**	**158,273**	**246,907**	**1,031,216**

Market risk

Market risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices. The Company is exposed to the following market risks: interest rate risk and equity price risk.

<u>Interest rate risk</u>

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest-bearing financial assets only. Interest-bearing assets comprise other financial assets at fair value through profit or loss and cash and cash equivalents, which are considered to be short-term liquid assets.

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa. Exposures are controlled by the setting of investment limits and managing assets and liabilities in line with the Company's risk appetite.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity of the Profit/(Loss) on ordinary activities before tax and of Total equity to defined movements in interest rates is shown in the following table.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Equity price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments.

The risks from investing in equities are managed by investing in a diverse portfolio of high-quality securities, ensuring that holdings are diversified across industries and that concentrations in any one company or industry are limited by parameters established by the Asset Allocation Committee.

The Company sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The Company takes a long-term view in investing in equities and looks to build value over a sustained period of time rather than using a high level of purchases and sales in order to generate short-term gains from its equity holdings.

The sensitivity of Profit/(Loss) on ordinary activities before tax and of Total equity to defined movements in the equity market is shown in the following table.

Sensitivity analysis

The table below provides the sensitivity of the Profit/(Loss) on ordinary activities before tax and the Total equity to defined movements in market risk factors taken independently with all other factors left unchanged:

	Increase/(decrease) in Profit on ordinary activities before tax		Increase/(decrease) in Total equity at 31 December	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Interest rate risk				
100bp increase in interest rates	(18,676)	(19,874)	(14,007)	(16,098)
50bp reduction in interest rates	9,078	10,298	6,808	8,341
Credit Spread risk				
50bp increase in credit spreads	(9,871)	(10,241)	(7,403)	(8,295)
Equity risk				
20% increase in equity markets	8,155	11,168	6,116	9,046
20% reduction in equity markets	(8,155)	(11,168)	(6,116)	(9,046)

The Company also owns the freehold of its Reading office and has a long-term lease on A&B Mills at Dean Clough in Halifax. Whilst the properties are not considered to be part of the investment portfolio, there is an element of market risk as the value of property is subject to market volatility.

Operational Risk

The Company is exposed to a range of operational risks, including those relating to the failure of processes or controls, business continuity, information security, and fraud. These risks are managed through the maintenance of a comprehensive internal control environment, including the operation of a "three lines of defence model", with Internal Audit and a Risk and Compliance team supplementing the control activities of business management.

Compliance Risk

As a regulated entity operating in the UK insurance market, the Company is subject to a wide range of regulations and legislation. There is a risk of failure to comply with existing requirements or to adapt to new or changing requirements. Such a failure could result in legal action, loss of revenue, increased costs, or regulatory sanction.

The Company manages these risks through the maintenance of open and constructive relationships with its regulators and of a strong internal compliance culture, and the thorough assessment of the impact of new legislation and regulations.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital Management

a) Policies and objectives

The Company manages its capital resources such that its current and projected available capital resources exceed its regulatory requirements and achieves:

- Effective implementation of a sustainable corporate strategy;
- Compliance with capital requirements imposed by the PRA;
- Financial viability of the Company;
- Appropriate levels to address identified business risks; and
- Trust in the Company's financial strength.

The Company is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the assets covering the insurance liabilities.

The Solvency II regime has been effective from 1 January 2016 and established a new set of EU-wide capital requirements and risk management and disclosure standards. This was transposed into UK law and so remains in force following the UK's departure from the European Union.

The Company is required to meet a Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of its ability to meet its obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations, as the assumptions underlying the standard formula are considered to be a fit for the Company's risk profile.

The Company manages its available capital resources (Own Funds under Solvency II) to exceed the relevant regulatory requirements at all times. In addition, the Board has established a capital management policy which targets a higher level of capital coverage to provide a degree of protection against unexpected events which might otherwise cause a breach of the regulatory requirement.

b) Measurement and monitoring

The capital position of the Company is monitored on an ongoing basis and updated on a monthly basis by the Risk and Solvency Team, which ultimately reports to the Company's Board.

In the event that sufficient capital were not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted, and hence the capital requirement through, for example, reinsurance, reducing business volumes, or a change in investment strategy.

c) Capital Statement

The Company has complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

As noted in the Strategic update, the company received a capital injection in 2022 through ordinary share capital and a subordinated loan. This was a result of management discussions with the Company's parent where a number of options were considered when it became apparent that the 2022 performance was going to be impacted by higher inflation and the wider market challenges.

As noted above, the Company benefits from a quota share reinsurance arrangement with a highly rated reinsurer. Initially, the Company entered into the arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 were ceded. In 2018 a further arrangement was agreed with the reinsurer under similar terms until 2024. This also included an option to increase the cession to 30% at the Company's discretion. This option has been triggered for the 2023 accounting year.

Subject to the recognition of losses as a result of the strategic review and the timing of the capital injection during 2022, the capital coverage of the Company has been in excess of the requirements set out in the internal capital management policy established by the Directors since the implementation of Solvency II.

2. RISK AND CAPITAL MANAGEMENT (CONTINUED)

	2022	2021
	£'000	£'000
Solvency II Own funds as at 1 January	336,508	328,321
Total equity movements in UKGAAP:		
(Loss)/profit for the financial year	(145,547)	6,147
Unwind effect of retrospective application of the levy accounting policy change[1]	8,523	1,731
Revaluation of owner-occupied property through OCI	(4,620)	3,767
Increase in share capital	58,000	-
Subordinated Loan	55,000	-
Movements in recognition adjustments:		
Removal of intangible assets	-	213
UKGAAP reserves replaced by technical provisions	31,324	(3,960)
Removal of depreciation adjustment on property	(577)	289
Deferred tax movement on recognition adjustments	(2,126)	-
Solvency II Own funds as at 31 December	336,485	336,508

[1] The (loss)/profit for the financial year reflects retrospective application of the change in accounting policy for levies detailed in note 3. The effect of this has been unwound in the note above to reflect the solvency position reported within the annual PRA *Quantitative Reporting Template submission.*

3. PRIOR YEAR RESTATEMENT

The accounting policy for the recognition of the Motor Insurers' Bureau (MIB) levy has been changed this year to better match the cost of the levy to the underlying risk to which it relates. The change has been applied retrospectively, as required by FRS102, with prior year comparative balances restated where applicable as detailed below.

The previous accounting policy for the MIB levy accrued the cost of the levy as the motor premium was written. The revised accounting policy accrues or prepays amounts to match the financial year to which the levy relates as appropriate.

The opportunity has also been taken to change the accounting policy for the Flood Re and one other levy to similarly match the cost of the levy to the underlying risk to which it relates. The impact of the changes has been included in the restatement of comparative information although insignificant.

The impact that the change in accounting policy has had on the 2021 comparative figures and the current year financial statements is detailed below:

Statement of Comprehensive Income	**As reported**	**Restatement**	**As restated**
	2021	**2021**	**2021**
	£'000	**£'000**	**£'000**
Net operating expenses	227,191	1,731	228,922
Comprising (Note 6):			
Motor Insurers' Bureau levy	4,994	1,943	6,937
Flood Re levy	4,425	(133)	4,292
Other levies	2,793	(79)	2,714
Profit for the financial year	7,878	(1,731)	6,147

3. PRIOR YEAR RESTATEMENT (CONTINUED)

Statement of Financial Position	As reported	Restatement	As restated
	2021	2021	2021
	£'000	£'000	£'000
Other prepayments and accrued income	1,496	1,119	2,615
Accruals and deferred income	14,725	(7,404)	7,321
Retained earnings	138,400	8,523	146,923

Statement of Change in Equity	As reported	Restatement	As restated
	£'000	£'000	£'000
Retained earnings as at 1 January 2021	130,522	10,254	140,776
Total comprehensive income for the year	7,878	(1,731)	6,147
Retained earnings	138,400	8,523	146,923

Had the change in accounting policy for levies not been affected in 2022, Operating expenses and the Loss for the financial year would have been £1,151,000 higher, at £301,115,000 and £146,698,000 respectively.

Statement of Change in Equity	Before application of change in policy	Impact of change in policy	After application of change in policy
	£'000	£'000	£'000
Motor Insurers' Bureau levy	9,952	(1,410)	8,542
Financial Services Compensation Scheme levy	3,928	-	3,928
Flood Re levy	4,026	112	4,138
Other levies	2,211	147	2,358
Total charge for levies	20,118	(1,151)	18,967
Net operating expenses	301,115	(1,151)	299,964
Loss for the financial year	146,698	(1,151)	145,547

4. PARTICULARS OF BUSINESS

a) *All contracts of insurance were concluded in the United Kingdom.*

b) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses, and the reinsurance result:

Gross premiums written and gross premiums earned by class of business

	Gross premiums Written		Gross premiums earned	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Motor third party liability	226,992	251,582	238,064	251,147
Motor other	86,295	79,986	90,593	79,517
Fire and other damage to property	343,415	317,692	332,972	281,711
Liability	135,259	122,551	131,030	107,320
Accident and health	30,829	34,543	31,228	35,056
Miscellaneous	32,250	32,925	33,049	26,577
	855,040	839,279	856,936	781,328

Gross claims incurred, gross operating expenses, and reinsurance balances by class of business

	Gross claims incurred		Gross operating Expenses		Reinsurance balance	
	2022	2021	2022	2021	2022	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Motor third party liability	224,807	148,204	106,478	70,463	(2,280)	(41,038)
Motor other	85,607	64,510	28,606	16,750	5,017	4,162
Fire and other damage to property	228,647	144,329	135,938	120,313	2,943	(9,437)
Liability	56,552	57,600	59,033	50,133	(14,016)	(8,235)
Accident and health	7,578	6,082	20,021	24,593	(1,886)	469
Miscellaneous	26,161	9,869	12,026	10,714	3,039	(4,264)
	629,352	430,594	362,102	292,966	(7,183)	(58,343)

5. OTHER TECHNICAL INCOME

	2022	2021
	£'000	£'000
Fee income	4,277	3,296
Instalment interest income	3,085	4,064
	7,362	7,360

6. NET OPERATING EXPENSES

	2022	2021
		Restated
Acquisition costs	**£'000**	**£'000**
Commission expenses	198,002	197,270
Others	24,353	24,053
	222,355	221,323
Change in deferred acquisition costs	(327)	(13,395)
	222,028	207,928
Administrative expenses	120,975	69,803
Subordinated Debt Interest	132	-
Motor Insurers' Bureau levy	8,542	6,937
Financial Services Compensation Scheme levy	3,928	3,023
Flood Re levy	4,138	4,292
Other levies	2,359	2,714
Gross operating expenses	362,102	294,697
Reinsurance commissions	(62,138)	(65,775)
Net Operating Expenses	299,964	228,922

Included in administrative expenses is auditors' remuneration in respect of audit services amounting to £682,000 (2021 - £620,000) and in relation to non-audit regulatory related services amounting to £222,000 (2021 - £202,000).

Administrative expenses also include:

	2022	2021
	£'000	**£'000**
Intangible asset impairment cost recharged from CISL	51,387	389
Depreciation of tangible assets	735	811
Amortisation of intangible assets	-	213
Operating lease rentals	493	458

7. INVESTMENT RETURN

	2022	2021
	£'000	**£'000**
Investment income		
Income from financial assets at fair value through profit and loss	11,397	10,540
Income from financial assets at amortised cost	234	62
	11,631	10,602

7. INVESTMENT RETURN (CONTINUED)

	2022	2021
	£'000	£'000
Investments expenses and charges		
Other investment management expenses	(993)	(906)
Net (loss) on the realisation of investments	(794)	(756)
Total Investment management expenses, including interest	(1,787)	(1,662)
Net unrealised (loss) on investments	(39,400)	(9,617)
Total investment return	(29,556)	(677)

8. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments, including benefits in kind, paid to or receivable by Directors during the year was as follows:

	2022	2021
	£'000	£'000
Aggregate emoluments and benefits	1,332	1,989
Compensation for loss of office	411	0
Pension contributions	67	69
	1,809	2,058
Highest-paid Director:		
Aggregate emoluments and benefits	566	564
Pension contributions	47	5
	612	569

The Company has a rolling three-year long term incentive plan (LTIP) scheme in place. A new grant has been made to the Executive Directors under the scheme, covering the performance period 2021 to 2023. The 2017 to 2019 LTIP vested at the end of 2020, with no payments due to any Directors. The 2018 to 2020 LTIP vested at the end of 2021, with no payments due to any Directors. The 2019 to 2021 LTIP will vest at the end of 2022 and the 2020 to 2022 LTIP will vest at the end of 2023. The amount vesting under any LTIP grant will depend on the extent to which performance conditions in relation to that grant are met and can also be reduced at the discretion of the Remuneration and Nominations Committee depending on the overall performance of the Company.

9. STAFF NUMBERS AND COSTS

The average number of employees during the year was nil (2021 – nil).

The costs of the employees are borne by CISL and, to the extent they are providing services to the Company, along with other costs, are recharged by way of a management expense recharge. This totalled £66,723,000 for the year to 31 December 2022 (2021: £67,334,000).

10. TAX CREDIT ATTRIBUTABLE TO (LOSS)/PROFIT ON ORDINARY ACTIVITIES

		2022	2021
		£'000	£'000
Current Tax	UK Corporation Tax	(2,432)	(1,646)
	Adjustment in respect of prior year	(29)	(342)
	Total current tax credit	(2,461)	(1,988)
Deferred Tax	Origination and reversal of timing differences	(10,352)	983
	Adjustment in respect of prior years	(2,022)	196
	Effect of changes in tax rates	(3,270)	(1,238)
	Deferred tax (note 22)	(15,644)	(59)
	Tax credit for the year	(18,105)	(2,047)

Factors affecting current tax credit

The tax assessed for the year is lower (2021: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2022	2021
	£'000	£'000
(Loss)/Profit on ordinary activities before tax	(163,652)	4,100
Tax on (loss)/profit on ordinary activities before tax at 19%	(31,094)	779
Expenses not deductible for tax purposes	1,830	329
Income on which no further tax is payable	(272)	(324)
Effects of group relief/ other reliefs	-	(300)
Transfer Pricing adjustments	(1,645)	(1,147)
Adjustment in respect of prior year	(2,051)	(146)
Tax rate changes	(3,270)	(1,238)
Deferred tax not provided	18,397	-
Total Tax credit for the year	(18,105)	(2,047)

The UK standard rate of corporation tax is 19% for the year ended 31 December 2022 (2021: 19%). The Finance Act 2021, that was substantively enacted on 24th May 2021, increased the rate of Corporation Tax in the UK to 25% from 1st April 2023. As a result, deferred tax has been provided at either 19% or 25% (2021: 19% or 25%), depending on the year in which the timing differences are expected to unwind. The deferred tax not provided if unwound at 25% would be £24,206,000.

There is no expiry date on timing differences, unused tax losses or tax credits.

11. DIVIDEND

No dividend was paid in 2022 in respect of 2021 (2021: No dividend paid in respect of 2020).

12. FINANCIAL INVESTMENTS

	Market Value		Cost	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Investments designated at fair value through profit or loss:				
Equities and units in unit trusts	40,773	55,839	25,754	35,388
Debt securities and other fixed-income securities	691,370	598,234	718,908	603,943
	732,143	654,073	744,662	639,331
Investments designated at amortised cost:				
Deposits with credit institutions	25,023	25,004	25,000	25,000
Loan to third party	206	200	200	200
	757,372	679,277	769,862	664,531
Listed investments included in the above	732,143	654,073	744,662	639,331

a) Fair value changes

The changes in fair value of investments stated at fair value through profit or loss as at 31 December 2022 were as follows:

				31 December 2022
	Cost	**Accrued income**	**Fair value gains/(losses)**	**Fair Value**
	£'000	**£'000**	**£'000**	**£'000**
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	25,754	-	15,019	40,773
Debt securities and other fixed-income securities	718,908	5,131	(32,669)	691,370
Total	744,662	5,131	(17,650)	732,143

				31 December 2021
	Cost	**Accrued income**	**Fair value gains/(losses)**	**Fair Value**
	£'000	**£'000**	**£'000**	**£'000**
Investments designated at fair value through profit or loss:				
Equities and units in unit trusts	35,388	-	20,451	55,839
Debt securities and other fixed-income securities	603,943	3,310	(9,019)	598,234
Total	639,331	3,310	11,432	654,073

b) Fair value hierarchy

FRS 102 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments listed on exchanges (e.g. London Stock Exchange).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

12. FINANCIAL INVESTMENTS

b) Fair value hierarchy (continued)

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible. There have been no transfers between levels in the year.

				31 December 2022
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Investments designated at fair value through profit or loss:				
Equities and units in unit trusts	-	40,773	-	40,773
Debt securities and other fixed-income securities	343,308	348,062	-	691,370
Total	343,308	388,835	-	732,143

				31 December 2021
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Investments designated at fair value through profit or loss:				
Equities and units in unit trusts	-	55,839	-	55,839
Debt securities and other fixed-income securities	275,725	322,509	-	598,234
Total	275,725	378,348	-	654,073

13. CLAIMS OUTSTANDING

2022	**Gross**	**Reinsurance**	**Net**
	£'000	**£'000**	**£'000**
Notified outstanding claims	802,056	379,955	422,101
Provisions for claims incurred but not reported	127,871	39,854	88,017
	929,927	419,809	510,118
Claims handling provision	6,803	-	6,803
	936,730	419,809	516,921

2021	**Gross**	**Reinsurance**	**Net**
	£'000	**£'000**	**£'000**
Notified outstanding claims	792,448	366,326	426,122
Provisions for claims incurred but not reported	31,325	13,697	17,628
	823,773	380,023	443,750
Claims handling provision	6,595	-	6,595
	830,368	380,023	450,345

Included in the reinsurers' share of claims outstanding is £3,453,000 (2021: £4,140,000) due from fellow group companies.

13. CLAIMS OUTSTANDING (CONTINUED)

The tables below reflect the cumulative incurred claims including both claims notified and IBNR for each successive accident year at each reporting date, together with the cumulative payments to date. The Company aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Analysis of claims outstanding – gross of reinsurance	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Initial estimate of ultimate claims costs	523,790	267,083	264,798	371,540	405,589	446,658	507,324	504,642	495,357	426,870	586,966	**586,966**
One year later	496,030	256,670	246,697	386,630	410,895	429,636	512,152	498,356	475,527	431,180	-	**431,180**
Two years later	463,685	239,314	248,242	376,771	408,816	419,582	513,002	497,555	469,049	-	-	**469,049**
Three years later	431,150	240,162	240,240	368,101	413,689	425,739	516,530	499,727	-	-	-	**499,727**
Four years later	452,169	245,671	230,575	364,224	406,410	426,027	525,962	-	-	-	-	**525,962**
Five years later	456,317	238,083	232,663	356,436	404,705	423,244	-	-	-	-	-	**423,244**
Six years later	455,997	237,180	230,369	353,821	402,009	-	-	-	-	-	-	**402,009**
Seven years later	457,424	237,291	229,771	353,044	-	-	-	-	-	-	-	**353,044**
Eight years later	453,493	237,541	229,652	-	-	-	-	-	-	-	-	**229,652**
Nine years later	452,419	238,429	-	-	-	-	-	-	-	-	-	**238,429**
Ten years later	458,472	-	-	-	-	-	-	-	-	-	-	**458,472**
Current estimate of cumulative claims	458,472	238,429	229,652	353,044	402,009	423,244	525,962	499,727	**469,049**	431,180	586,966	**4,617,734**
Cumulative payments to date	(378,380)	(211,341)	(228,726)	(340,569)	(376,778)	(397,968)	(465,912)	(429,425)	(383,097)	(292,590)	(216,356)	**(3,721,142)**
Cumulative liability recognised in Statement of Financial Position for 2012 to 2022 accident years	80,092	27,088	926	12,475	25,231	25,276	60,050	70,302	85,952	138,590	370,610	**896,592**
Liability recognised in Statement of Financial Position in respect of prior accident years												**33,335**
Claims handling provision												**6,803**
Gross general insurance claims liabilities as at 31 December 2022												**936,730**

13. CLAIMS OUTSTANDING (CONTINUED)

Analysis of claims outstanding – net of reinsurance	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Initial estimate of ultimate claims costs	356,946	232,787	239,889	333,694	379,764	324,282	376,303	377,197	335,055	316,896	416,288	416,288
One year later	335,426	220,868	227,975	323,209	371,368	311,918	373,219	371,591	309,408	314,480	-	314,480
Two years later	320,433	208,099	223,947	311,814	367,080	306,261	371,344	368,131	306,053	-	-	306,053
Three years later	304,562	204,705	223,054	304,408	364,552	304,671	373,974	367,031	-	-	-	367,031
Four years later	296,263	201,886	220,554	305,513	362,131	306,455	377,854	-	-	-	-	377,854
Five years later	297,878	197,613	220,313	307,102	363,480	304,802	-	-	-	-	-	304,802
Six years later	289,803	196,353	219,065	307,127	361,303	-	-	-	-	-	-	361,303
Seven years later	290,843	196,619	218,554	305,690	-	-	-	-	-	-	-	305,690
Eight years later	290,307	196,427	218,409	-	-	-	-	-	-	-	-	218,409
Nine years later	291,182	196,532	-	-	-	-	-	-	-	-	-	196,532
Ten years later	292,281	-	-	-	-	-	-	-	-	-	-	292,281
Current estimate of cumulative claims	292,281	196,532	218,409	305,690	361,303	304,802	377,854	367,031	306,053	314,480	416,288	3,460,723
Cumulative payments to date	(279,360)	(191,563)	(217,359)	(301,862)	(355,841)	(294,306)	(350,173)	(327,473)	(252,696)	(222,750)	(161,604)	(2,954,987)
Cumulative liability recognised in Statement of Financial Position for 2012 to 2022 accident years	12,921	4,969	1,050	3,828	5,462	10,496	27,681	39,558	53,357	91,730	254,684	505,736
Liability recognised in Statement of Financial Position in respect of prior accident years												4,382
Claims handling provision												6,803
Net general insurance claims liabilities as at 31 December 2022												516,921

14. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2022	2021
	£'000	£'000
Amounts owed by intermediaries	136,852	141,715
Amounts owed by policyholders	44,025	42,743
	180,877	184,458

15. OTHER DEBTORS

	2022	2021
	£'000	£'000
Amounts owed by group companies	35,863	73,182
Corporation tax recoverable	-	1,645
Deferred tax asset (note 22)	21,374	5,730
Other receivables	10,169	8,217
	67,406	88,774

16. TANGIBLE ASSETS

	Computer equipment	Fixtures, fittings and equipment	Motor vehicles	Land and buildings	Total
Cost/valuation	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	3,860	2,669	13	25,000	31,542
Revaluation	-	-	-	(8,612)	(8,612)
At 31 December 2022	3,860	2,669	13	16,388	22,930
Accumulated Depreciation					
At 1 January 2022	3,860	2,393	13	578	6,844
Charge for the year	-	63	-	672	735
Revaluation	-	-	-	(1,250)	(1,250)
At 31 December 2022	3,860	2,456	13	-	6,329
Net Book Value					
At 31 December 2022	-	213	-	16,388	16,601
At 31 December 2021	-	276	-	24,422	24,698

The company holds two properties under the revaluation model. Both properties are valued triennially by a RICS registered chartered surveyor at Fair Value, using market-based evidence for similar properties sold in the local area. The valuation of one of the properties was carried out at 31 December 2022 and the other was valued at 31 December 2021. Where there are indications that the value of a property might be impaired, and a triennial valuation is not scheduled, an assessment is made of the property's value using available market evidence and the value adjusted accordingly.

If the Land and Buildings were held under amortised cost the net book value at year end would have been £16,354,000 (2021 - £19,819,000).

17. INTANGIBLE ASSETS

	Computer software	Total
Cost	**£'000**	**£'000**
At 1 January 2022	21,561	21,561
At 31 December 2022	21,561	21,561
Accumulated Amortisation		
At 1 January 2022	21,561	21,561
Charge for the year	-	-
At 31 December 2022	21,561	21,561
Net Book Value		
At 31 December 2022	-	-
At 31 December 2021	-	-

18. DEFERRED ACQUISITION COSTS

The recognition of opening and closing deferred acquisition costs is as follows:

	2022	2021
	£'000	£'000
Balance as at 1 January	93,023	79,628
Movement in the year	327	13,395
Balance as at 31 December	93,350	93,023

19. CALLED UP SHARE CAPITAL

	2022	2021
	£'000	£'000
Allotted, called up and fully paid 207,224,365 (2021:207,224,365) Ordinary shares of £1 each	265,224	207,224

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and repayment of capital.

On 15 December 2022 the Company's Board agreed to allot and issue 58 million ordinary shares of £1 each to its parent company MMA Holdings UK plc for a consideration of £58,000,000. This additional funding will be used to support the future development of the business.

20. SUBORDINATED LIABILITIES

	2022	2021
	£'000	£'000
Subordinated liability	55,000	-

On 15 December 2022 Covéa Cooperations, the parent of the Company's immediate parent MMA Holdings UK plc, issued a £55.0m subordinated loan note to the Company. The loan has a term of 10 years from issue date with no repayment within 5 years and falls to be reported as tier 2 capital for Solvency II purposes. Interest is calculated on an arm's length basis and interest paid on the loan is included in Note 6.

21. TECHNICAL PROVISIONS (INCLUDING PRIOR YEAR RUN-OFF OF CLAIMS PROVISION)

	Unearned Premium (Gross)	Unearned Premium (Net of Reinsurance)	Outstanding claims (Gross)	Outstanding claims (Net of Reinsurance)
	£'000	£'000	£'000	£'000
At 1 January 2021	345,138	338,556	834,199	445,724
Movement in Provision	57,951	52,150	(3,831)	4,621
At 31 December 2021	403,089	390,706	830,368	450,345
Movement in Provision	(1,896)	(1,525)	106,362	66,576
At 31 December 2022	401,193	389,181	936,730	516,921

The movement in the 2021 claims provision detailed above includes consideration received from a counterparty in respect of a transfer of insurance business to the Company in the year. The consideration is reported in the Pet insurance product line and amounts to £3,200,000 of Outstanding Claims (Gross) and £320,000 of Outstanding Claims (Net of Reinsurance).

Prior year claims provision

Claims incurred, net of reinsurance, are shown after taking account of movements in the estimates of costs of claims outstanding at the start of the period. These movements are the differences between the net technical provision for outstanding claims at the beginning of the period and the sum of net claims payments and the net technical provision for outstanding claims at the end of the period for those claims.

	Motor Liability	Other Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
2022	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Decrease/(increase) in cost estimate for prior years' claims, net of reinsurance	1,744	465	(1,683)	4,926	1,524	191	7,167

	Motor Liability	Other Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Decrease in cost estimate for prior years' claims, net of reinsurance	13,017	2,325	2,783	198	3,056	1,315	22,694

22. DEFERRED TAXATION

	2022	2022	2021	2021
	£'000	£'000	£'000	£'000
Fixed asset timing differences		(1,489)		(1,930)
Other short-term timing differences		629		313
Taxable losses carried forward		22,234		7,347
Provision for deferred tax		21,374		5,730
Deferred tax asset at beginning of year		5,730		5,671
Fixed asset timing differences	376		36	
Other short term timing differences	160		(69)	
Taxable losses/(profits) carried forward	9,816		(950)	
	10,352		(983)	
Prior year adjustment	2,022		(196)	
Effect of rate change	3,270		1,238	
Deferred taxation (note 10)		15,644		59
Deferred tax asset at end of year (notes 15)		21,374		5,730

The gross amount of unrecognised tax losses is £96,824,000.

23. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2022	2021
	£'000	£'000
Other taxes including insurance premium tax and social security costs	26,499	26,572
Due to group companies	106	-
Other creditors	326	317
	26,931	26,889

24. ACCRUALS AND DEFERRED INCOME

	2022	2021
		Restated
	£'000	£'000
Levies	852	1,262
Other accruals and deferred income	5,685	6,059
	6,537	7,321

25. OPERATING LEASES

Total commitments in respect of non-cancellable operating leases are as follows:

	2022	2021
Payment due	£'000	£'000
Not later than one year	509	406
Later than one year and not later than five years	921	389
	1,430	795

26. ULTIMATE PARENT COMPANY

The Company is a member of the Covéa Group. It is a wholly-owned subsidiary of MMA Holdings UK plc, an unlisted public company incorporated in England and Wales.

MMA Holdings UK plc is a wholly-owned subsidiary of Covéa Cooperations, a company registered in France. Covéa Cooperations is controlled by MMA IARD Assurances Mutuelles, MMA Vie Assurances Mutuelles, AM-GMF (formed through the merger of La Garantie Mutuelle des Fonctionnaires and Assurances Mutuelles de France on 1 November 2022), MAAF Assurances and MAAF Santé. These companies own all the share capital and control 100% of the voting rights of Covéa Cooperations, are registered in France, and are affiliated to Covéa SGAM.

Covéa SGAM prepares the consolidated financial statements of the Covéa Group, copies of which can be obtained from MMA Holdings UK plc, Norman Place, Reading, Berkshire, RG1 8DA.

27. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption within FRS 102 from disclosure of those transactions between the Company and fellow members of the Covéa SGAM Group of companies whose voting rights are wholly-owned by the ultimate parent.

a) Group company balances

Included in balances arising out of reinsurance operations are the following:

	2022	2021
	£'000	£'000
Due from/(to) fellow group companies	291	62

b) Other Group company balances are reflected in notes 13, 15, 20 and 23.

There were no other material related party transactions.

28. CAPITAL COMMITMENTS

There is no capital expenditure that has been authorised and contracted but has not been provided for (2021: nil).

29. CONTINGENT LIABILITIES

At 31 December 2022, the Company had no contingent liabilities (2021: nil).

Company Information
For the Year Ended 31 December 2022

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements are set out below.

John Allen	(appointed 31 January 2023)
Nicholas Caplan [2]	(resigned 31 January 2023)
Stephen Clarke [2,3]	
Jane Dale [2]	
Thierry Francq [1]	Chair (from 8 December 2022)
Adrian Furness	
James Gearey	(resigned 31 August 2022)
François Josse [1]	(resigned 20 December 2022)
Maria Leighton	(resigned 31 July 2022)
Christopher Moat [2]	
Dominique Salvy [1]	(resigned 8 December 2022 as Director and Chair)

[1] Non-Executive Director
[2] Independent Non-Executive Director
[3] Senior Independent Non-Executive Director

SECRETARY	Annabel Wilson
REGISTERED AND HEAD OFFICE	Norman Place Reading Berkshire RG1 8DA
REGISTERED NUMBER	00613259
WEB ADDRESS	www.coveainsurance.co.uk
REGULATORS	Prudential Regulation Authority Financial Conduct Authority
BANKERS	HSBC Bank plc PO Box 125 2nd Floor 62-76 Park Street London SE1 9DZ
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT