Company Registration No. 01179980

U K Insurance Limited

Annual Report and Financial Statements

31 December 2022

Direct Line Group Company Secretariat
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Contents

Officers and professional advisors

Directors:	D M Gray T J Corrigan M J Gregory S R E C James A C Joseph N D Manser F C McBain G N Stewart R C Ward
Company secretary:	R C Clifton
Registered office:	The Wharf Neville Street Leeds LS1 4AZ
Auditor:	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom
Company registration:	Registered in England and Wales

Strategic report

For the year ended 31 December 2022

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

Activities and business review

Activity

The principal activity of U K Insurance Limited (the "**Company**") is the provision of general insurance

The Company is a member of the Direct Line Group (the "**Group**") headed by Direct Line Insurance Group plc ("**DLIG**") of which the Company is a subsidiary. The Group provides the Company with access to all Group central resources and provides policies in key areas such as finance, risk, human resources and environmental matters. For an understanding of the Group's business as a whole, please refer to the DLIG annual report and accounts ("**DLIG annual report**") for the year ended 31 December 2022, alongside the Review of the year section below. Copies can be obtained from Direct Line Group Company Secretariat, Churchill Court, Westmoreland Road, Bromley, BR1 1DP, the Registrar of Companies or through the Group's website at www.directlinegroup.co.uk

The Company is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the PRA and the Financial Conduct Authority ("**FCA**").

Review of the year

Business review

The Company's results fell significantly below expectations in 2022 as it navigated a particularly challenging operating environment and significant change against a backdrop of very high inflation, fundamental new regulatory changes and the most severe weather event it has experienced for well over a decade.

The Company made a loss on ordinary activities before taxation of £137.8 million (2021: £334.7 million profit), a reduction of £472.5 million. There was a 16 percentage point increase in the combined operating ratio to 112% where a 19 percentage point rise in loss ratio to 80% was partially offset by a 3 percentage point improvement in the expense and commission ratio.

Business developments included:

- the Company continued to invest in digital-first journeys, giving customers greater options to interact with the Company's brands;
- a Churchill Essentials Motor product was launched, designed to enhance the Company's competitiveness in the price comparison website channel;
- Green Flag launched its own patrol vehicles as well as diversifying its product offering, including selling accessories via the Green Flag shop and giving customers the convenience of booking maintenance and repair services; and
- the Company's Commerical business continued to grow, demonstrating the benefits of its technology transformation for its customers and brokers.

The Company may take into account proposals from within the Group, in seeking future opportunities for growth.

Key performance indicators

Combined operating ratio		
Definition - A measure of financial year underwriting profitability. A combined operating ratio of less than 100% indicates profitable underwriting. The combined operating ratio is the sum of claims, expense and commission ratios and compares the cost of doing business against net earned premium generated. Aim - The Company aims to make an underwriting profit Performance - The combined operating ratio increased due to claims inflation in Motor not reflected in our pricing and significant weather events impacting Home and Commercial.	**2022** 2021	**112%** 96%

Solvency capital ratio*		
Definition - A risk-based measure expressing the level of capital resources held as a percentage of the level of capital that is required under Solvency II Aim - The Company seeks to hold capital resources such that in the normal course of business, the Solvency II capital coverage ratio is maintained above a minimum threshold of 128% of its SCR. Performance - Please see page 3 for more information.	**2022** 2021	**127%** 160%

Note:

* Estimates based on the Company's Solvency II internal model

Customer complaints		
Definition - The number of complaints received during the year as a proportion of the average number of in-force policies. Aim - This measure indicates the level of customer service we provide. The Company aims to improve this over time. Performance - The Company experienced a dip on the previous year due to economic headwinds creating parts, labour and hire car supply challenges.	**2022** 2021	**0.61%** 0.46%

Net promoter score[1] (points)		
Definition – This is an index that measures the willingness of customers to recommend the Company's products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.	**2022**	**142.0**
Aim – The Company aims to improve this over time.		
Performance – The Company experienced a dip on the previous year due to economic headwinds creating parts, labour and hire car supply challenges.	2021	156.0

Note
1 On an aggregated 12-month rolling basis, with 2013 rebased to 100

Financial performance

The Company's financial performance is presented in the profit and loss account on page 16 and statement of comprehensive income on page 17.

Gross premiums written of £3,095.5 million (2021: £3,171.6 million) decreased by 2.4% with lower volumes and lower average premiums across personal lines offset by strong growth in Commercial.

The Company's combined operating ratio increased by 16.0 percentage points to 112% (2021: 96%). The loss ratio increased by 19.0 percentage points with increases across Motor, where the Company has experienced significant inflation in third-party motor damage claims and second-hand vehicles. Overall, claims from weather-related events in Home and Commercial were £149 million, made up of three events, storms in February, extremely dry weather over the summer which resulted in subsidence and the freeze in December.

The expense ratio and commission ratio decreased by 3.0 percentage points, driven primarily by the non-repeat of the Bromley site lease termination charge in 2021.

Prior-year reserve releases were lower by £94.9 million at £164.5 million (2021: £259.4 million) and represented an equivalent of 5.5% of net earned premium (2021: 8.8%). Prior-year reserve releases were concentrated towards more recent accident years and were predominantly lower in Home and Motor.

Overall, the Company's technical result reduced by £461.3 million to a £354.6 million loss (2021: £106.7 million profit).

Investment income increased by £6.2 million to £122.2 million (2021: £116.0 million) as investment income from cash and cash equivalents more than offset reductions in interest income from debt securities. This reflected higher interest rates and a reduction in the Company's holdings in debt securities in the year. Realised and unrealised losses on investments were £70.1 million in the year (2021: £33.1 million gains). This was due to realised losses on the Company's debt securities and unrealised losses on its land and buildings investments.

Other income increased by £71.2 million to £185.1 million (2021: £113.9 million), with instalment income lower, as a result of lower gross written premium, being more than offset by the introduction of a panel fee, where in 2022, the Company created a panel of companies to provide repair services. The Company receives a fee from panel members.

The Company recorded a loss of £137.8 million on ordinary activities before taxation (2021: £334.7 million profit), a reduction of £472.5 million due to a loss in the technical result and realised and unrealised losses in investments, partially offset by improvements to investment income and other income

At the end of the year, the Company had total assets of £7,161.6 million (2021: £7,918.4 million) and total shareholder's funds of £1,491.5 million (2021: £1,896.6 million).

Dividends

A dividend of £90.0 million was paid during the year (2021: £408.0 million), which represented the final dividend for 2021. The Directors do not recommend a final dividend for 2022.

Solvency capital

The Company's solvency capital ratio at 31 December 2022 was 127%. The capital position was affected by the combination of significantly weaker levels of Motor profitability, adverse investment experience and well above average claims from major weather events. These factors reduced the Company's own funds in the year. The Board has taken steps to strengthen its capital position during H2 and into 2023, such as reducing the risk in the investment portfolio and agreeing a 10% whole account quota share reinsurance arrangement. It continues to look at options to improve capital strength. The Board aims to operate above its minimum risk appetite of around 128% and it will take actions where it is below this level. In normal circumstances, the Board expects the Company to operate around a solvency capital ratio of 140%.

Presentation of financial statements

The primary financial statements are presented in accordance with Company law requirements. In addition, the Company has taken advantage of several disclosure exemptions available under Financial Reporting Standard 101 'Reduced Disclosure Framework' ("**FRS 101**").

Events after the balance sheet date

The Company has reviewed the fee for membership for its panel of repair companies and is increasing the fee from 1 January 2023. Some related companies within the Group are members of the repair panel.

On 26 January 2023, the Company announced that it had entered into strategic reinsurance agreements, that together comprise a 3-year structured 10% quota share arrangement. The contracts incept with effect from 1 January 2023.

On 1 March 2023, the Company entered into arrangements relating to Motability Operations and the motor insurance needs of approximately 600,000 of its customers.

Risk management

The Company's risk management objectives are set out in note 3 to the financial statements. The following are considered to be the Company's emerging risks.

Climate change

The Group and the Company recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks

During 2022, the Group and Company have continued to embed further controls and targets around climate change including submitting emission targets to the Science Based Targets initiative, whilst the Climate Executive Steering Group has created a sub-group comprising of key members to provide expertise on the reporting and governance of targets.

The Group and the Company continue to monitor these risks closely and to develop their climate change modelling capability. Further details on the Group's risk management approach to climate change are included in the DLIG annual report

Changing consumer behaviours

As consumers face intense pressure on their finances and time, coupled with generational changes, this will generate a rapid structural shift in customer demand, requiring the Company to innovate and adapt its product offerings in order to remain relevant.

In 2022, in response to this emerging risk, the business reviewed its new product approval processes to identify opportunities to streamline the approach and enable a faster, but still safe, route to market. It also developed an implementation plan to embed Consumer Duty principles.

Keeping up with digital advancements

Developments in technology and changes in market, regulatory and consumer trends are creating opportunities for new entrants to profitably exploit new distribution channels, business models and niches. In response to this, the Group is delivering multiple programmes to provide the Group and the Company with the capabilities to enable future innovation at pace.

Geopolitical tension

Due to heightened tensions on the world stage and a global shift in power, there is a risk that measures are implemented by governments that decrease political stability, erode countries' relationships and contribute to increasing protectionism. This could lead to multiple impacts including on investment performance and supply chains. The Group and Company conducts ongoing analysis to monitor exposure to the developing geopolitical environment (for example, Russia/Ukraine), while maintaining a close eye over the political risk landscape.

Automotive technology

New car technology is in development which, once on UK roads, will be transformative. Traditional Motor policies may no longer serve the needs of customers, requiring changes to the Company's pricing models and policy wordings to remain relevant. The Group's repair networks' capabilities will also need to be upgraded to effectively serve this demand. The Group and Company will focus on launching new products that will better serve customer needs in the future while engaging with regulators to help shape policies and understand potential impacts for the Company.

Data ethics

Consumers are becoming more aware of their data rights and regulators more interested in how firms use customer data. The industry is also gathering more data than ever before and increasingly exploring more sophisticated processing capabilities, such as artificial intelligence ("**AI**") and machine-learning. These trends together could lead to data being used in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes. The Group and Company is embedding the Data Ethics Framework within Pricing & Underwriting policies and procedures, while providing guardrails to apply across the Group and Company. As new data capabilities are introduced, we will ensure effective monitoring and oversight is in place to adhere to the principles set out in the framework.

Outlook

High level strategies of the Group are determined by the Board of DLIG and these are shown in the DLIG annual report for the year ended 31 December 2022. The Directors consider that the Company's principal activities will continue unchanged for the foreseeable future. For this purpose, the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements

Section 172(1) Statement and engagement with stakeholders

The Directors of the Company confirm that during the year under review, they have acted in the way they consider would be most likely to promote the long-term success of the Company for the benefit of its members as a whole, whilst having regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act 2006 ("**Section 172(1)**").

The matters set out in Section 172(1) underpin the Group's purpose and vision and form the foundation for considerations and decision making. The Group's purpose - to help people carry on with their lives, giving them peace of mind now and in the future - is centred on customers and their long-term interests. The Group's vision - to create a world where insurance is personal, inclusive and a force for good - reflects the desire to do business in a way that benefits all stakeholders, the environment and wider society. Further key disclosures in respect of each of the Section 172(1) matters can be found in the DLIG annual report for the year ended 31 December 2022 on page 17.

The Directors of DLIG, the ultimate parent entity of the Group, are also the Directors of the Company. Except in cases in which a decision relates solely to the Company, such as the payment of a dividend, the debates and decisions of the Directors concern both companies. The Group's governance framework, which is consistent with the 2018 UK Corporate Governance Code, applied to the Company during the year. Further information about the Company's governance arrangements can be found in the Directors' report on page 7. The Company relies on resources made available by the Group including employees and suppliers who are respectively employed and contracted by a fellow subsidiary undertaking, DL Insurance Services Limited. Disclosures relating to employees and suppliers may be found in the financial statements of DL Insurance Services Limited and the DLIG annual report for the year ended 31 December 2022.

The Group's vision, purpose and values are set out in the DLIG's strategic report for the year ended 31 December 2022 on pages 10 to 11 and further information on the Group's five-pillar sustainability strategy, which includes engagement with the community and protection of the environment and which applies to the Company, can be found on page 50 in DLIG's 2022 annual report.

Examples of how the Group has engaged with its stakeholders and had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year are detailed in DLIG's corporate governance report for the year ended 31 December 2022 on pages 106 and 107. The Company is the principal underwriter of the Group and the combined Board meetings of DLIG and the Company monitor customer engagement by receiving customer experience and conduct and complaints reports at scheduled meetings. During 2022, the Board monitored the implementation of the FCA's new Consumer Duty rules which improves good outcomes for customers.

The Directors consider the likely consequences of any decision in the long term. Each company within the Group is bound by Group policies consistent with the Group's culture in all key areas including supplier management and outsourcing, customer conduct, human resources and the environment. Group policies and minimum standards applied by the Company during the financial year included, for example, the Capital Management minimum standard to which the Directors adhered when making decisions concerning the management of the Company's capital and declaration of dividends. Details of decisions made regarding dividends can be found on page 3.

The Directors and management operate the business in a responsible manner with the aim of ensuring that the Company maintains a reputation for high standards of business conduct and good governance. The Group's Code of Business Conduct provides guidance to the Group's employees and contractors on the high standards of professional and ethical conduct expected of them and aims to preserve the Group's and the Company's reputation for high standards of conduct. Information on the Group's Ethical Code for Suppliers can be found in the DLIG annual report for the year ended 31 December 2022 on page 103. The Company's statement on modern slavery can be found on the Group's corporate website.

Approved by the Board of Directors and signed on behalf of the Board by:

DocuSigned by

N D Manser

Director

21 March 2023

Directors' report

For the year ended 31 December 2022

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022

The Company has chosen, in accordance with section 414c(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain additional matters in its strategic report, that would otherwise be required to be disclosed in this Directors' report:

- details of dividends declared;
- a summary of the Company's trading activities, future prospects and principal activities of the Company are included in the activities and business review section of the strategic report; and
- risk management of financial instruments disclosures are stated in note 3 to the financial statements.

Directors and Secretary

The names of the present Directors and Company Secretary are listed on page 1

From 1 January 2022 to date the following change has taken place:

Director	Appointed	Resigned
P J James		27 January 2023

Going concern

The Directors believe that the Company has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Company is well positioned to manage its business risks successfully in the current economic climate. The trading update that was approved by the Board of Directors and announced to the stock market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group, and therefore the Company, has faced in particular with respect to the severe weather in December 2022 and further increases in motor claims inflation, as well as the impact on the Company's investment property portfolio valuation. The strategic report describes the Company's capital position, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to improve capital strength. The Company's financial position is also covered in that section. The financial disclosures relating to the Company's principal risks are set out in note 3. This covers insurance, market and credit risk; and the Company's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Company over the duration of the planning cycle, which runs until 2026. The Group's Risk Function has carried out an assessment of the risks to the strategic plan ("the **Plan**") and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, delay in pricing actions, increase in operating expenses and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% with the Group and market response delayed by six months.
- delay in pricing, future initiatives deliver 50% of expected value.
- increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives.
- fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's and Company's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on own funds in the period to 31 December 2023 and 31 December 2024. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of the Company i.e. a reduction of own funds to below the solvency capital requirement The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity

Further information in relation to the sensitivity of key factors on the Company's financial position are included in the financial statements. The insurance risk note (note 3.3.1) sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note (note 3.3.2) sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives

Therefore, having made due enquiries, the Directors reasonably expect that the Company has adequate resources to continue in operational existence for at least 12 months from 21 March 2023 (the date of approval of the financial statements) Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Existence of branches outside the UK

The Company has a branch in the Republic of South Africa and the Republic of Ireland.

Employees

All staff are employed by a fellow subsidiary undertaking of DLIG, DL Insurance Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of DL Insurance Services Limited.

Disclosure of information to the Auditor

Each person who was a Director of the Company on the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the Company's Auditor is unaware; and
- each Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte LLP have expressed their willingness to continue in office as Auditor and it is the intention of the Directors to reappoint Deloitte LLP under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' indemnities

DLIG has made qualifying third-party indemnity provisions for the benefits of the Directors of the Company which remain in force at the date of this report.

Statement of corporate governance arrangements

The Directors are committed to maintaining the highest standards of corporate governance The Company did not apply a separate corporate governance code as its parent Direct Line Insurance Group plc applied the UK Corporate Governance Code, which was applied across the Direct Line Group and accordingly also to the Company. The Group provides each member company with access to its central resources and provides policies in all key areas such as finance, risk, human resources and the environment. These central resources and policies are aligned to the Group's governance framework, which is consistent with the 2018 UK Corporate Governance Code.

The core elements of the Group's governance framework are the:

Schedule of Matters Reserved to the Board and the Board Committees' Terms of Reference;
- High Level Control and System of Governance Framework document;
- Risk appetite statements;
- Enterprise Risk Management Strategy and Framework;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business how it needs to conduct its activities to remain within risk appetite; and
- Minimum standards, which interpret the Group policies into a set of requirements that can be implemented throughout the Group.

During the year, the Company complied with the Group's governance framework. Further information on the system of governance in operation throughout the Group can be found in the DLIG annual report 2022.

Business relationships

Examples of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year can be found in the DLIG corporate governance report on pages 106 and 107.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework', and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company at the end of the year and the profit or loss of the Company for the financial year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom standards, comprising FRS 101 have been followed subject to any material departures disclosed and explained in the financial statements; 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, the Company's financial position at any time; and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the Company's assets and, hence, taking reasonable steps to prevent and detect fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board by:

DocuSigned by

N D Manser

Director

21 March 2023

Independent Auditor's Report to the shareholders of U K Insurance Limited

31 December 2022

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of UK Insurance Limited (the "**Company**"):

- 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 then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27 of the financial statements, excluding the capital adequacy disclosure in note 3, calculated in accordance with the Solvency II regime, which is marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - valuation of insurance liabilities: 1) The frequency, severity and inflationary assumptions for bodily injury claims; and 2) Periodic payment orders ("**PPOs**") inflation and discount rates. - valuation of illiquid investments. 1) Commercial real estate loans, infrastructure debt and private placement bonds; and 2) Investment property: Within this report, key audit matters are identified as follows: Newly identified; Increased level of risk; Similar level of risk, and Decreased level of risk.
Materiality	The materiality that we used for the financial statements was £21.6m, which approximates to 1.4% of Shareholders' equity and 0.8% of the current year gross earned premium and is capped at 90% (2021: 90%) of the materiality used for the audit of the consolidated financial statements of the Company's parent, Direct Line Insurance Group plc ("**Group**").
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit team.
Significant changes in our approach	During the year we have made the following changes to our audit approach: - We updated our key audit matters to include inflation assumptions with regard to bodily injury claims and margins above the actuarial best estimate, removing our previously separate key audit matter on these margins. In direct response to the trading updates issued by the Group, we have further made the following changes to our audit approach - We reassessed our approach to determining materiality and changed our key benchmark from profit before tax to shareholders' equity including profit/loss for the period, resulting in a £3.6m decrease to materiality applied. - We changed our controls testing strategy in light of the economic environment and the Group's results; and - We engaged additional internal specialists to assist us in performing audit procedures to address the incremental risks across the audit, including fair value and regulatory specialists.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included.

- We obtained an understanding of the internal controls relating to management's going concern assessment process:
- We assessed the impact of the profit warnings issued during the year on management's control environment and forecasting and evaluated the impact on historical forecasts;
- We assessed the impact of management's actions in relation to the profit warnings on the future capital position of the Company;
- We assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Company;
- We assessed management's Group's Strategic Plan and challenged management's underlying business plans and forecasts to support key forward-looking assumptions such as the Group's growth rate and discount rate given our understanding of the Company and its industry; and
- We evaluated management's reverse stress test; independently performing sensitivity analysis to assess the impact of various scenarios on the Group's liquidity and solvency headroom.

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

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

5. Key audit matters

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

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

5.1 Valuation of insurance liabilities

Refer to page 23 (Accounting Policies), page 28 (Notes to the financial statements - Note 2) and page 53 (Notes to the financial statements - Note 21).

The Company's gross insurance liabilities total £3.6 billion (2021: £3.7 billion) and represent the single largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to high levels of estimation uncertainty. Consequently, small changes in these methods or assumptions can materially impact the valuation of these liabilities. We have identified the following three key areas of focus for our audit given their significance to the Company's result and the high level of estimation uncertainty. We have also identified these as potential fraud risk areas.

5.1.1 The frequency, severity and inflationary assumptions for bodily injury claims

Key audit matter description

The frequency and severity of bodily injury claims have a significant impact on the valuation of the insurance liabilities and the setting of these assumptions is driven by a variety of factors. These factors include the completeness and accuracy of source data, the transparency of any changes in the reporting of bodily injury claims, and actuarial assumptions being consistent with emerging data, market factors and the Company's reserving policy. As a result of these factors, there is a significant level of estimation uncertainty in the valuation of these claims, which increases the susceptibility of the balance to material misstatement due to error or fraud.

Furthermore, reduced traffic volumes throughout accident years 2020 and 2021 and a return to normality during 2022 increased inherent uncertainty underlying the estimation of the ultimate number of non-large bodily injury claims in the most recent cohorts of data. This uncertainty is further amplified given the long-tailed nature of bodily injury claims Further, continued uncertainty regarding the impact of the Whiplash Reform in May 2021 increases inherent uncertainty underlying bodily injury claims.

Moreover, we have identified that inflationary assumptions have a significant impact on the valuation of bodily injury insurance liabilities and there is a significant level of estimation uncertainty inherent with these assumptions in light of the macroeconomic environment. The allowance for inflation has been made by the Company within both their best estimate and margin above the best estimate.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of relevant controls

In order to gain assurance over the completeness and accuracy of source data used in the Company's actuarial calculations and by our in-house actuarial specialists in performing our work, we have evaluated the data reconciliation controls and re-performed reconciliations on the actuarial data back to the financial ledger and source systems.

Independent Auditor's Report to the shareholders of U K Insurance Limited - continued

For the year ended 31 December 2022

Having done this, we worked with our actuarial specialists to:

- Inspect and challenge the reserving process in relation to bodily injury claims by assessing relevant documentation and meeting with the Actuarial Director and their team;
- Inspect and challenge the Company's documented methodology and key assumptions in respect of the prior years as well as the current year, with particular reference to inflationary impacts. This included:
  - Using our in-house reserving software to help us challenge the Company's response to emerging claims trends;
  - Conducting sensitivity testing on the methodology and assumptions used in the current year selections and challenging changes from prior year;
  - Comparing the Company's cost per claim and frequency diagnostics to market benchmarks and independent reserve review results; and
- Analyse the consistency in reserving strength and reserve releases in comparison with prior years;
- Leverage third party economic studies to challenge the appropriateness of management's adverse scenarios, with a specific focus on care worker wage inflation given the sensitivity of the Company's bodily injury claims to this assumption, whilst looking back to outcomes from previous economic downturns; and
- Perform a 'stand back' test to challenge the reasonableness of the overall insurance liabilities between periods in light of the level of uncertainties that existed at each respective reporting date.

Key observations

We have concluded that the assumptions used in the calculation of the bodily injury claims reserves are reasonable.

5.1.2 The inflation and discount rate assumptions for PPOs

Key audit matter description

The Company is required to settle a proportion of large bodily injury claims as PPOs rather than lump sum payments. The valuation of PPOs has a material impact on the financial statements, with liabilities totalling £611.4 million (2021: £731.3 million) on a discounted gross basis as detailed in note 21.

Given the ongoing uncertainty in the UK's inflation environment and investment markets, the selection of the inflation and discount rate assumptions is highly judgemental. The PPOs are sensitive to the economic assumptions selected and as at 31 December 2022, the Company valued PPOs using an inflation rate curve linked to the PRA published risk free rate (2021: fixed 3.5%). Additionally, the Company used a discount rate curve linked to the investment yield of assets used to match the PPO liabilities (2021: fixed 3.5%). These assumptions represent a key source of estimation uncertainty for the Company, which increases the susceptibility of the balance to material misstatement due to error or fraud.

How the scope of our audit responded to the key audit matter

We have gained a detailed understanding of management's process for setting these assumptions and obtained an understanding of the relevant controls surrounding the setting of the inflation rates across the book of the business and the discount rate used in the PPO valuation, namely the challenge and approval of these assumptions by the reserving committee.

We have worked with our actuarial specialists to:

- Inspect and challenge management's PPO inflation assumption by evaluating relevant documentation, meeting with the Actuarial Director and their team;
- Inspect and evaluate management's sensitivity testing on the PPO inflation assumption, requesting additional sensitivity testing from management where needed; and
- Inspect and challenge management on the methodology and rational for deriving the discount rate by benchmarking the selected discount rate against external sources and comparing with market economic data.

In addition, we performed the following procedure

- Worked with our valuations specialist to evaluate the reasonableness of the selected discount rate curve.

Key observations

We have determined that the inflation and discount rate assumptions used in the calculation of the PPO claims reserve are reasonable.

5.2 Valuation of illiquid investments

Refer to page 117 (Audit Committee Report), pages 24 and 25 (Accounting Policies) and page 49 and 50 (Notes to the financial statements - notes 12 and 14).

In the current year, we continue to identify the valuation of illiquid investments, specifically the commercial real estate loans, infrastructure debt, private placement bonds and investment property investments as a key audit matter as described below.

5.2.1 Commercial real estate loans, infrastructure debt and private placement bonds

Key audit matter description

We have identified a key audit matter in relation to these credit portfolios totalling £535.5 million (2021: £542.8 million);

Given the Company continues to recognise and measure financial instruments under IAS 39, these instruments are measured at amortised cost and require the recognition of an impairment when an incurred loss event arises. Significant management judgement is required in determining if an incurred loss event has occurred and, in the instance an event has occurred, there is significant estimation uncertainty in determining the impairment charge.

We deem there to be an continuing risk of default or delinquency on these less liquid assets owing to high and sustained levels of uncertainty in the UK economy from rising inflation and interest rates.

Independent Auditor's Report to the shareholders of U K Insurance Limited - continued

For the year ended 31 December 2022

How the scope of our audit responded to the key audit matter

We have obtained an understanding of, and tested the relevant controls that mitigate the risk over the valuation of illiquid investments. Our work included attendance at the year-end impairment review meeting to observe the operation of a key management review control.

In addition, we performed the following procedures:

- tested a sample of interest payments to bank during the year to test for default or delinquency in interest payments;
- utilised market indices to identify commercial real estate loans at risk and inspected the tenancy breakdowns for potential risks of unit closure given the current economic issues facing the UK;
- challenged management on loans of interest where indicators could point to issuer financial difficulty and obtained evidence to help assess whether management's conclusion was reasonable; and
- engaged our complex pricing specialists to determine an independent fair value of these assets to identify any significant decreases in value below book cost.

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material impairment

5.2.2 Investment property

Key audit matter description

The investment properties held by the Company comprise of retail, retail warehouse, supermarkets and foodstores, industrial and alternative properties. As noted in disclosure note 12, the total value as at 31 December 2022 is £278.5 million (2021: £317.0 million). Given the current UK macroeconomic environment with inflationary pressures and increasing interest rates affecting the cost of debt, we have identified the methodology and assumptions used for valuing the investment property portfolio as a key audit matter in the current year In light of the volatility across the whole investment property market, we have expanded the scope of the key audit matter to cover the whole portfolio (£278.5 million) rather than just the retail and alternative sectors identified in the prior year (2021: £101.6 million).

We considered the valuation of the investment properties to be a key audit matter as the determination of fair value involves significant judgement by the external valuation experts. Valuation methodology for investment properties are subjective in nature and involve various key assumptions. The use of different valuation methodology and assumptions could produce significantly different estimates of fair value. With the volatility in the UK financial market, the property valuers can attach less weight to previous market evidence in determining a fair value. This leads to greater levels of estimation uncertainty in determining the valuation.

How the scope of our audit responded to the key audit matter

We have obtained an understanding of and tested the relevant control related to the annual meeting with management's external valuation expert; this is where management review and challenge the assumptions and methodologies used in determining the fair value. In addition, we performed the following procedures:

- Worked with our real estate specialists who challenged the management's expert on the estimated rental value, yield and capitalisation rate assumptions and methodologies used in the valuation of the properties;
- Assessed the competence, capability and objectivity of management's expert;
- Tested the completeness and accuracy of the data inputs used in the valuation process performed by management and their external valuer; and
- Tested the data inputs used in the valuation model for investment properties, by agreeing occupation rates, unit sizes, contracted rent to the underlying signed agreements and property reports We then re-performed the calculation of the yields applied using this data

Key observations

We considered the accounting treatment applied to be reasonable. In performing our procedures, we did not note any indicators of material misstatements within the investment property portfolio fair value.

Independent Auditor's Report to the shareholders of U K Insurance Limited - continued

For the year ended 31 December 2022

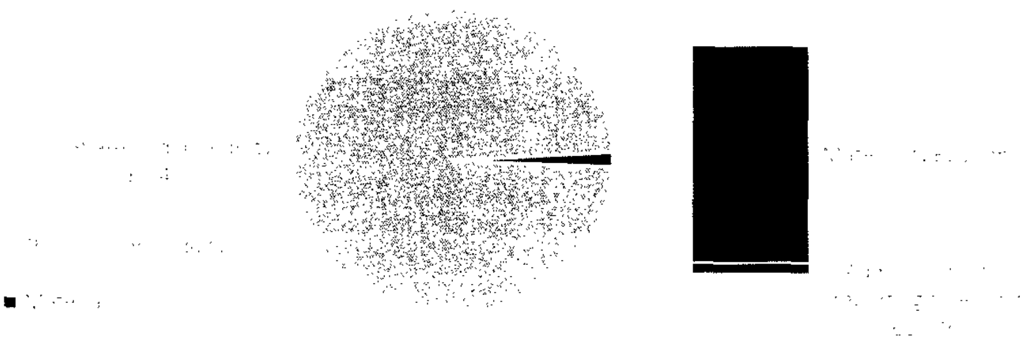
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements
Materiality	*£21.6 million (2021: £25.2 million)*
Basis for determining materiality	The materiality approximates to 1.4% (2021: 1.3%) of shareholders' equity including profit/loss for the period and 0.8% (2021: 0.8%) of the current year gross earned premium and is capped at 90% (2021: 90%) of the materiality used for the audit of the consolidated financial statements of the Company's parent, Direct Line Insurance Group plc.
Rationale for the benchmark applied	In light of the economic circumstances identified in the current year, the cancellation of the dividend and the trading updates issued by the Group, we determined that the critical benchmark for the Company was no longer profit before tax. Instead, we determined that the critical benchmark for the Company was shareholders' equity (including profit/loss for the period) given the focus on distributable reserves and future dividend payment capability. We also considered this measure in conjunction with gross earned premium given the nature of the Company as the sole underwriter of the Group.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 67.5% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- the impact of the trading updates on the Company;
- we have audited the Company for a number of years and so have knowledge of both the Company and the environment it operates in;
- our ability to rely on controls over a number of significant business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods, and our assessment that these were not likely to recur in the current period

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.08 million (2021: £1.26 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Scoping

The scope of our audit was determined by obtaining an understanding of the Company and its environment, including internal control and assessing the risks of material misstatement

7.2 Our consideration of the control environment

IT Controls

In planning our 2022 audit, we identified 16 systems that were material to the Company's financial reporting processes These systems handled data relating to premiums and claims and we intended to rely on the IT and business controls associated with these systems. Having worked with our in-house IT specialists to assess the operating effectiveness of the IT controls associated with these systems, as well as the wider general IT control environment across the Company, we were able to rely upon the IT controls associated with 14 systems, with 1 system in the process of establishing controls and 1 system having insufficient evidence.

Business processes and financial reporting controls

In planning our 2022 audit, we identified 15 business processes that were material to the Company's financial reporting and which we tested. These processes spanned the Company's material transactions and account balances including the premiums, claims, reinsurance, expenses and investments processes and part of the reserving process relating to reconciliation of data Of these, we intended to directly rely on the business controls associated with 14 of these processes. Further, in response to the heightened engagement risk we changed our control rotation strategy and tested 2 more processes in the current year for operating effectiveness. Having completed our testing over the operating effectiveness of business controls associated with these processes, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with 10 processes planned.

Across 5 of these business processes, we identified deficiencies and across a further 2, we identified insights which we communicated to those charged with governance and these have been remediated or are in the process of being remediated.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including management's implementation of the Climate Executive Steering Group and Group sustainability framework. We have assessed whether these initiatives undertaken by management are aligned with the Climate Change Roadmap developed by the Association of British Insurers. We have performed a risk assessment of the financial impact of climate-related risks on the financial statements and concluded the risks of material misstatement due to climate risk factors are remote. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation. We challenged management's disclosure relating to climate change in note 3 of the financial statements. We have considered whether information included in the climate-related disclosures in the financial statement were consistent with our understanding of the business and its environment.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

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

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Audit Committee on 2nd November 2022.
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities:
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, real estate, valuations, IT, forensic and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation on insurance liabilities In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence, regulatory solvency requirements such as those under the relevant Solvency II requirements and those required by the PRA, FCA and environmental regulations.

11.2 Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enhancing our stand-back assessments for accounting judgements, increasing and broadening the scope of our fraud inquiries in response to the trading updates issued by management,
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and FCA:
- meeting directly with the PRA and FCA and engaging a regulatory specialist to support our performance of audit procedures around regulatory compliance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Independent Auditor's Report to the shareholders of U K Insurance Limited - continued

For the year ended 31 December 2022

Report on other legal and regulatory requirements

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

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

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

13.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the audit committee of Royal Bank of Scotland Group plc ("**RBSG**"), which at the time owned the Group, we were appointed by the Board of Directors of RBSG on 21 March 2000 to audit the financial statements for the year ending 31 December 2000 and subsequent financial periods. When the Group became independent of RBSG the Group's Board reappointed us to audit the newly demerged Group. Taking into account our service to predecessor organisations, the period of total uninterrupted engagement including previous renewals and reappointments of the firm is 23 years, covering the years ending 31 December 2000 to 31 December 2022.

14.2 Consistency of the audit report with the additional report to the Audit Committee

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

15. Use of our report

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

DocuSigned by:

B9E8A3875BFC496

Adam Addis, ACA

Senior Statutory Auditor

For and on behalf of Deloitte LLP

London, United Kingdom

21 March 2023

U K Insurance Limited **01179980**

Profit and Loss Account

For the year ended 31 December 2022

Technical account - general business	Notes	2022 £m	2021 £m
Earned premiums, net of reinsurance			
Gross premiums written		**3,095.5**	3,171.6
Outward reinsurance premium		**(141.6)**	(186.4)
Net premiums written		**2,953.9**	2,985.2
Change in the provision for unearned premiums			
Gross amount		**37.4**	(3.6)
Reinsurers' share		**(24.1)**	(24.2)
Change in the net provision for unearned premiums		**13.3**	(27.8)
Earned premiums net of reinsurance	4	**2,967.2**	2,957.4
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(2,393.7)**	(1,949.0)
Reinsurers' share		**69.0**	89.4
Net claims paid		**(2,324.7)**	(1,859.6)
Change in the provision for claims			
Gross amount		**20.8**	(63.8)
Reinsurers' share		**(80.7)**	106.4
Net change in provision for claims		**(59.9)**	42.6
Claims incurred, net of reinsurance	4	**(2,384.6)**	(1,817.0)
Net operating expenses	5	**(937.2)**	(1,033.7)
Balance on the technical account for general business - transferred to non-technical account		**(354.6)**	106.7
Non-technical account - general business			
Investment income	6	**122.2**	116.0
Realised (losses)/gains on investments	6	**(55.9)**	3.6
Unrealised (losses)/gains on investments	6	**(14.1)**	29.5
Investment expenses and charges	6	**(20.5)**	(35.0)
Other income	7	**185.1**	113.9
(Loss)/profit on ordinary activities before taxation		**(137.8)**	334.7
Tax on (loss)/profit on ordinary activities	8	**26.3**	(79.9)
(Loss)/profit on ordinary activities after taxation		**(111.5)**	254.8

The attached notes on pages 21 to 57 form an integral part of these financial statements

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
(Loss)/profit attributable to the owners of the Company		**(111.5)**	254.8
Other comprehensive loss			
Items that may be reclassified subsequently to the profit and loss account:			
Fair value losses on available-for-sale investments	19	**(295.9)**	(86.0)
Add. net losses/(gains) on available-for-sale investments included in the profit and loss account	19	**24.9**	(8.0)
Tax relating to items that may be reclassified	19	**67.4**	17.2
Other comprehensive loss for the year		**(203.6)**	(76.8)
Total comprehensive (loss)/income for the year attributable to the owners of the Company		**(315.1)**	178.0

The attached notes on pages 21 to 57 form an integral part of these financial statements.

U K Insurance Limited **01179980**

Balance sheet

As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Intangible assets	10	**3.1**	2.4
Right-of-use assets	11	**57.0**	58.8
Investments			
Land and buildings	12	**278.5**	317.0
Investments in Group undertakings and participating interests			
Shares in Group undertakings	13	**11.5**	11.5
Other financial investments			
Debt securities and other fixed income securities	14	**3,245.7**	4,130.5
Other loans	14	**439.2**	451.6
Derivative financial instruments	14, 15	**31.2**	35.9
		3,716.1	4,618.0
Total investments	14	**4,006.1**	4,946.5
Reinsurers' share of technical provisions			
Provision for outstanding premiums	16, 22	**55.6**	79.7
Claims outstanding	16	**1,028.9**	1,109.6
		1,084.5	1,189.3
Debtors			
Debtors arising out of direct insurance operations - policyholders		**598.7**	607.5
Debtors arising out of direct insurance operations - intermediaries		**118.6**	81.2
Debtors arising out of reinsurance operations		**34.0**	41.0
Amounts owed by Group undertakings[1]		**0.5**	2.1
Other debtors		**17.0**	8.4
Deferred tax assets		**67.8**	1.0
Current taxation		**81.4**	19.5
		918.0	760.7
Other assets			
Cash at bank and in hand		**864.9**	723.2
Prepayments and accrued income			
Accrued interest and rent		–	0.3
Deferred acquisition costs	17	**189.2**	187.4
Other prepayments and accrued income from contracts with customers		**38.8**	49.8
		228.0	237.5
Total assets		**7,161.6**	7,918.4

Balance sheet

As at 31 December 2022

	Notes	2022 £m	2021 £m
Liabilities			
Capital and reserves			
Called-up share capital	18	**730.8**	730.8
Other reserves	19	**(195.0)**	8.6
Profit and loss account		**955.7**	1,157.2
Shareholder's funds		**1,491.5**	1,896.6
Subordinated liabilities	20	**–**	255.3
Technical provisions			
Claims outstanding	21	**3,632.7**	3,653.5
Provision for unearned premiums	22	**1,463.3**	1,500.7
		5,096.0	5,154.2
Provisions for other risks	23	**54.1**	50.0
Creditors			
Creditors arising out of direct insurance operations		**3.4**	4.1
Creditors arising out of reinsurance operations		**57.4**	45.5
Amounts owed to Group undertakings[1]		**41.4**	86.8
Amounts owed to credit institutions		**60.6**	51.6
Derivative financial instruments	15	**29.6**	19.2
Lease liabilities		**65.1**	66.2
Other creditors	24	**185.0**	163.5
		442.5	436.9
Accruals and deferred income			
Accruals		**74.7**	122.2
Deferred income		**2.8**	3.2
		77.5	125.4
Total shareholder's funds and liabilities		**7,161.6**	7,918.4

Notes

1. All Group undertakings within the Group are 100% owned by the Company's ultimate parent Direct Line Insurance Group plc

The attached notes on pages 21 to 57 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 21 March 2023.

They were signed on its behalf by:

DocuSigned by

N D Manser

N D Manser

Director

Statement of changes in equity

For the year ended 31 December 2022

	Called up share capital (note 18) £m	Other reserves (note 19) £m	Profit and loss account £m	Total Shareholders funds £m
Balance at 1 January 2021	730 8	85.4	1,310 9	2,127.1
Profit for the year	–	–	254.8	254.8
Other comprehensive loss	–	(76.8)	–	(76.8)
Total comprehensive income for the year	–	(76.8)	254.8	178 0
Transfer of business realised net gain on available-for-sale investments - gross (note 19)	–	–	(0.6)	(0.6)
Transfer of business realised net gain on available-for-sale investments - tax (note 19)	–	–	0.1	0.1
Dividends paid (note 9)	–	–	(408.0)	(408.0)
Total transactions with equity holders	–	–	(408 5)	(408.5)
Balance at 31 December 2021	730 8	8 6	1,157.2	1,896.6
Loss for the year	**–**	**–**	**(111.5)**	**(111.5)**
Other comprehensive loss	**–**	**(203.6)**	**–**	**(203.6)**
Total comprehensive loss for the year	**–**	**(203.6)**	**(111.5)**	**(315.1)**
Dividends paid (note 9)	**–**	**–**	**(90.0)**	**(90.0)**
Total transactions with equity holders	**–**	**–**	**(90.0)**	**(90.0)**
Balance at 31 December 2022	**730.8**	**(195.0)**	**955.7**	**1,491.5**

Total changes in equity for the year were entirely attributable to the equity shareholder of the Company.

The attached notes on pages 21 to 57 form an integral part of these financial statements.

1. Accounting policies

1.1 Basis of preparation

The Company's financial statements are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. The financial statements are prepared on a historical cost basis except for investment property, available-for-sale ("**AFS**") and derivative financial assets and financial investments which are measured at fair value

The Company is incorporated and domiciled in the UK and registered in England and Wales. The Company is limited by shares.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of effective International Financial Reporting Standards ("**IFRS**") as adopted by the UK but makes amendments where necessary to comply with Companies Act 2006, which includes presenting its profit and loss account and balance sheet in accordance with the formats prescribed for insurance entities under company law.

The Company has taken advantage of the following FRS101 disclosure exemptions:

- FRS 101.8 (eA): the requirements of the second sentence of paragraph 110 and of paragraphs 113 (a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from contracts with customers';
- FRS 101.8 (eB): the requirements of paragraph 52, paragraph 58, the second sentence of paragraph 89 and paragraphs 90 to 91 of IFRS 16 'Leases';
- FRS 101 8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements' to produce a cash flow statement, and to make an explicit and unreserved statement of compliance with IFRSs;
- FRS 101.8 (h): the requirements of IAS 7 'Statements of Cash Flows' to produce a cash flow statement and related notes;
- FRS 101 8 (i): the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to include new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member.

The Company has considerable financial resources and as a consequence, the Directors believe the Company is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements as explained in the Directors' report on page 6. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 5 and the Directors' report on pages 6 to 7. In addition, note 3 to the financial statements includes the Company's objectives, policies and processes for managing its insurance and financial risks and capital.

Adoption of new and revised standards

The Company has adopted the following new amendments to IFRSs and International Accounting Standards ("**IASs**") that became mandatorily effective for the Company for the first time during 2022. None of these amendments require changes to existing accounting policies.

In May 2020, the IASB issued narrow-scope amendments to three standards:

- Amendments to IFRS 3 'Business Combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;
- Amendments to IAS 16 'Property, Plant and Equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss; and
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Also, in May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018-2020' which makes minor amendments to:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards which simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS standards later than its parent;
- IFRS 9 'Financial Instruments - this amendment clarifies that - for the purpose of performing the '10 per cent test' for derecognition of financial liabilities - in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf; and
- IFRS 16 'Leases' which removes the illustration of payments from the lessor relating to leasehold improvements.

1.2 Consolidated financial statements

The financial statements contain information about U K Insurance Limited as an individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempted by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its immediate and ultimate parent, Direct Line Insurance Group plc, a public company registered in the United Kingdom. The registered address of Direct Line Insurance Group plc is Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

1. Accounting policies continued

1.3 Foreign currencies

The Company's financial statements are presented in sterling which is the functional and presentational currency of the Company.

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the profit and loss account.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in the profit and loss account except for differences arising on AFS non-monetary financial assets held at fair value through other comprehensive income ("**FVOCI**"), which are recognised in other comprehensive income.

1.4 Contract classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished

1.5 Revenue recognition

Premiums earned

Insurance and reinsurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium reserve, which represents the proportion of the premiums incepted in the year or prior periods that relate to periods of insurance cover after the balance sheet date Unearned premiums are calculated over the period of exposure under the policy on a daily basis, a monthly basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Cash back payments to policyholders under motor telematics policies represent a reduction in earned premiums.

Investment income

Interest income

Interest income on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

Dividend income

Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

Income from land and buildings

Rental income from land and buildings is recognised in the profit and loss account on a straight-line basis over the period of the contract Any gains or losses arising from a change in fair value are recognised in the profit and loss account.

Instalment income

Instalment income comprises the interest income earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. Interest is earned using an effective interest rate method over the term of the policy.

Other operating income (accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers')

Panel fees

The Company has a panel of repair companies to provide repair services. Repair companies pay a fee for membership on the panel. As the Company completes its performance obligation evenly over the term of the contract and revenue is both invoiced and received monthly in equal instalments no contract asset or liability is included on the balance sheet.

Vehicle replacement referral income

Vehicle replacement referral income comprises fees recognised at a point in time in respect of referral income received when a customer or a non-fault policyholder (claimant) of another insurer has been provided with a hire vehicle from a preferred supplier.

Income is recognised when the customer or claimant has been provided with a vehicle by the supplier

Other income

Commission fee income in respect of services is recognised at a point in time on satisfaction of related performance obligations Where variable consideration is identified in a contract, this revenue is estimated and constrained to the extent that it is highly improbable that revenue recognised will be reversed. Income is stated excluding applicable sales taxes.

1.6 Claims incurred

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries.

Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by Periodical Payment Orders ("**PPOs**") established under the Courts Act 2003

A court can award damages for future pecuniary loss in respect of personal injury, or for other damages in respect of personal injury and may order that the damages are wholly or partly to take the form of PPOs. These are covered in more detail in note 2.3. Costs for both direct and indirect claims handling expenses are also included.

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. When calculating the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate the value of incurred claims (gross and net) at the balance sheet date. Also included in the estimation of incurred claims are factors such as the potential for judicial or legislative inflation.

Provisions for more recent claims make use of techniques that incorporate expected loss ratios and average claims cost (adjusted for inflation) and frequency methods. As claims mature, the provisions are increasingly driven by methods based on actual claims experience. The approach adopted takes into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is generated internally and reconciled to the accounting data.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels and the estimation of future claims handling costs. Actual claims experience may differ from the historical pattern on which the actuarial best estimate is based and the cost of settling individual claims may exceed that assumed. As a result, the Company sets reserves based on a management best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This amount is recorded within claims provisions.

A liability adequacy provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts (for example, reinsurance). The expected value is determined by reference to recent experience and allowing for changes to the premium rates.

The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.7 Reinsurance

The Company has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk.

The Company cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by product line. Outward reinsurance premiums and claims are generally accounted for in the same accounting period as the direct business to which they relate.

Reinsurers' share of technical provisions include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Recoveries in respect of PPOs are discounted for the time value of money.

A reinsurance impairment provision is assessed in respect of reinsurance debtors to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly and this is taken as an indication of a reinsurer's difficulty in meeting its obligations under the reinsurance contracts. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty default risk exposure to long-term reinsurers' share of technical provisions particularly in relation to PPOs. Changes in the provision affect the Company by changing the carrying value of the net reinsurance asset with the movement being recognised in the profit and loss account.

1.8 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs deferred are direct advertising expenditure, directly attributable administration costs, commission paid and costs associated with telesales and underwriting staff.

1.9 Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit and loss account over the assets' economic lives using methods that best reflect the pattern of economic benefits and is included in operating expenses.

1. Accounting policies continued

1.10 Right-of-use assets ("ROU") and lease liabilities

Where the Company is a lessee

At inception, the Company assesses whether a contract contains a lease arrangement, which involves assessing whether it obtains substantially all the economic benefits from the use of a specific asset, and it has the right to direct the use of that asset. The Company recognises a ROU asset and a lease liability at the commencement of the lease (when the underlying asset is available for use). The ROU asset is initially measured based on the present value of the lease payments, plus initial direct costs less any incentives received. Lease payments include fixed payments and variable payments. Variable payments relate to contractual rent increases linked to inflation indices. The ROU asset is depreciated over the lease term, or its economic useful life if shorter, and is subject to impairment testing if there is an indicator of impairment. When leases contain an extension or purchase option which is reasonably expected to be exercised this is included in the measurement of the lease.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield-to-maturity pricing linked to the lease amount and term, and includes a credit spread. The lease liability is subsequently measured at amortised cost using the effective interest rate method and remeasured, with a corresponding adjustment to the ROU asset, when there is a change in future lease payments, terms or reassessment of options.

The Company leases office space.

Where the Company is a lessor

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Lease income from operating leases is recognised in the profit and loss account on a straight-line basis over the lease term.

1.11 Investments - land and buildings

Land and buildings comprise freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations completed quarterly by independent registered valuers and in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the profit and loss account.

Land and buildings are derecognised when it has been either disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the profit and loss account in the year of retirement or disposal.

1.12 Investments in Group undertakings

Investments in Group undertakings are stated at cost less any impairment.

1.13 Other financial investments

Other financial investments are classified as available-for-sale, held-to-maturity, held at FVTPL, or loans and receivables

Purchases or sales of other financial investments that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the date that the Company commits to purchase or sell the asset.

Available-for-sale ("AFS")

Other financial investments can be designated as AFS on initial recognition. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences, resulting from translating the amortised cost of foreign currency monetary AFS financial investments are recognised in the profit and loss account, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholder's funds until disposal, when the cumulative gain or loss is recognised in the profit and loss account

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. The valuation methodology described above uses observable market data.

If the market for a financial investment is not active, the Company establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's-length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

Held-to-maturity ("HTM")

Non-derivative financial investments not designated as AFS, or loans and receivables with fixed or determinable payments and fixed maturity, where the intention and ability to hold them to maturity exists, are classified as HTM.

Subsequent to initial recognition, HTM financial investments are measured at amortised cost using the effective interest rate method less any impairment losses.

Loans and receivables

Non-derivative financial investments with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or HTM. Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses

Impairment of financial assets

At each balance sheet date, the Company assesses whether there is any objective evidence that a financial investment or group of financial investments classified as AFS, HTM or loans and receivables is impaired. A financial investment or portfolio of financial investments is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the investment have adversely affected the amount or timing of future cash flows from the investment.

AFS

When a decline in the fair value of a financial investment classified as AFS has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the profit and loss account. The loss is measured as the difference between the amortised cost of the financial investment and its current fair value.

Impairment losses on AFS debt instruments are reversed through profit or loss, if there is an increase in fair value that is objectively related to a subsequent event.

HTM and loans and receivables

If there is objective evidence that an impairment loss on a financial investment or group of financial investments classified as HTM or loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the investment or group of investments and the present value of estimated future cash flows from the investment or group of investments, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually, where significant, or collectively for investments that are not individually significant.

Impairment losses are recognised in the profit and loss account and the carrying amount of the financial investment or group of financial investments is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces, and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

Insurance receivables

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from third parties where they have collected or are due to collect the money from the policyholder

Receivables also include amounts due in respect of the provision of legal services.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of three months, a bad debt provision is made. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the profit and loss account and the bad debt provision is released back to the profit and loss account

Derivatives and hedging

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into, and subsequently remeasured to their fair value at the end of each reporting period. Derivative fair values are determined from quoted prices in active markets where available Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the profit and loss account unless the derivative is the hedging instrument in a qualifying hedge. The Company enters into fair value hedge relationships.

Hedge relationships are formally documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows and fair values attributable to the hedged risk, consistent with the documented risk management strategy, or if the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued.

In a fair value hedge, the gain or loss on the hedging instrument is recognised in the profit and loss account. The gain or loss on the hedged item attributable to the hedged risk is recognised in the profit and loss account and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive the cash flows from that asset have expired or when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of ownership of the asset.

1. Accounting policies continued

1.14 Cash at bank and in hand

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Amounts owed to credit institutions, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method and are repayable on demand.

1.15 Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

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

1.16 Subordinated liabilities

Subordinated liabilities comprise subordinated guaranteed dated notes which are initially measured at the consideration received less related transaction costs. Subsequently, subordinated liabilities are measured at amortised cost using the effective interest rate method.

1.17 Provisions for other risks

The Company recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

The Company makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme and Motor Insurance Bureau.

When the Company has an onerous contract, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected future economic benefit.

1.18 Taxation

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted, or substantively enacted, by the balance sheet date and is allocated over profits before taxation or amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Deferred taxation is accounted for in full using the balance sheet liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is probable that they will not be recovered.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current assets and liabilities on a net basis.

1.19 Dividends

Interim dividends on Ordinary Shares are recognised in equity in the period in which they are paid. Final dividends on Ordinary Shares are recognised when they have been approved at the Annual General Meeting ("**AGM**").

1.20 Accounting developments

1.20.1 Transition to IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments'

The Company will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023 IFRS 17 is expected to bring a significant change to how the Company accounts for its insurance contracts issued and reinsurance contracts held. The Company expects to adopt the fully retrospective approach on transition and to apply the Premium Allocation Approach, assuming that for any contracts of greater than one year, measurement of those contracts under the Premium Allocation Approach would not differ materially from the General Measurement Model also permitted by IFRS 17. The Company will apply IFRS 9 retrospectively and will apply the option to designate debt instruments that would otherwise be categorised as 'fair value through other comprehensive income as 'fair value through profit and loss'

On adoption of IFRS 17 and IFRS 9, the Company will also transition from FRS 101 to IFRS.

1.20.2 Deferred adoption of IFRS 9 disclosures

As the Company has deferred the adoption of IFRS 9, 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' requires certain interim disclosures in relation to the fair value movements of financial assets as outlined below.

The fair value at the end of the reporting period for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount are disclosed in note 26. The amount of change in the fair value during the period for these financial assets was:

- AFS debt securities and other fixed interest securities £285.7 million decrease (2021: £93.8 million decrease);
- infrastructure debt £7.7 million decrease (2021: £2.1 million decrease);
- commercial real estate loans £1.0 million increase (2021: £0.5 million decrease); and
- other loans £1.0 million decrease (2021: £nil).

Derivative assets do not have contractual terms that give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. The fair value of these financial assets is disclosed in note 26 and the amount of change in the fair value during the period was an increase of £30.7 million (2021: £26.9 million increase)

In note 3.3.3 the Company has disclosed the carrying amount of financial investments at the end of the reporting period by credit risk rating grade, as defined in IFRS 7 'Financial Instruments: Disclosures'. The fair value of financial assets that meet the 'solely payments of principal and interest' criteria, and at the end of the reporting period do not have a low credit risk, was £300.9 million (2021: £366.0 million). The carrying value of these financial assets at 31 December 2022 was £304.8 million (2021: £368.1 million).

2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Company's principal accounting policies are set out on pages 21 to 27. Company law requires the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable

In the absence of an applicable standard or interpretation, IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant reliable information in the light of the requirements and guidance in UK Generally Accepted Accounting Practice dealing and IFRS with similar and related issues and Schedule 3 of the Companies Act 2006 for the preparation and presentation of financial statements. The judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below.

2.1 Impairment provisions – financial assets

Accounting judgement

The Company's financial assets are classified as AFS or HTM debt securities or loans and receivables. The Company makes a judgement that financial assets are impaired when there is objective evidence that an event or events have occurred since initial recognition that have adversely affected the amount or timing of future cash flows from the asset. The determination of which events could have adversely affected the amount or timing of future cash flows from the asset requires judgement. In making this judgement, the Company evaluates, among other factors: the normal price volatility of the financial asset; the financial health of the investee; industry and sector performance; changes in technology or operational and financing cash flow; and whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Impairment may be appropriate when there is evidence of deterioration in these factors.

On a quarterly basis, the Company reviews whether there is any objective evidence that a financial asset is impaired based on the following criteria:

- actual, or imminent, default on coupon interest or nominal;
- adverse movements in the credit rating for the investee/borrower;
- price performance of a particular AFS debt security, or group of AFS debt securities, demonstrating an adverse trend compared to the market as a whole; and
- whether an event has occurred that could be reliably estimated and which had an impact on the financial asset or its future cash flows.

The majority of the Company's financial assets are classified as AFS debt securities (31 December 2022: £3,147.5 million; 31 December 2021: £4,039.3 million). Impairment losses and exchange differences arising from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the profit and loss account. Other changes in fair value are recognised in a separate component of equity. No impairments have been recognised in the AFS portfolio. Had all the declines in AFS debt securities asset values met the criteria above at 31 December 2022, the Company would have suffered a loss of £262.9 million (2021: £24.8 million loss), being the transfer of the total AFS reserve for unrealised losses to the profit and loss account. However, these movements represent mark-to-market movements and, as there was no objective evidence of any loss events that could affect future cash flows, no impairments have been recorded.

The Company has a small portfolio of investments classified as HTM (31 December 2022: £98.2 million; 31 December 2021: £91.2 million). These assets are measured at amortised cost and there have been no impairment losses (2021: £nil).

The Company has a portfolio of investments classified as loans and receivables, primarily comprising infrastructure debt and commercial real estate loans (total 31 December 2022: £439.2 million; 31 December 2021: £451.6 million). There was an impairment of £1.8 million within the loans and receivables portfolio in the year ended 31 December 2022 (2021: £2.1 million).

2. Critical accounting judgements and key sources of estimation uncertainty continued

2.2 Fair value of investments in land and buildings

Sources of estimation uncertainty

The Company holds a portfolio of investments in land and buildings, with a value at 31 December 2022 of £278.5 million (2021: £317.0 million). Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. The valuation in the financial statements is based on valuations by independent registered valuers and the techniques used include some unobservable inputs. The valuations used for investments in land and buildings are classified in the level 3 category of the fair value hierarchy (see note 26).

Any significant risk of a material adjustment to the carrying amount of the investment property portfolio within the next financial year will be dependent on a number of factors including the developments in the economic outlook which could result in volatility in market prices, rental yields or occupancy rates. Sensitivity analysis for the investment property portfolio has been independently calculated by the Company's registered valuers by flexing inputs of internal models to a reasonable alternative yield to ascertain the impact on property valuations (see note 12). There are no significant sources of estimation uncertainty in relation to climate-related matters in valuing the investment property portfolio.

2.3 General insurance: outstanding claims provisions and related reinsurance recoveries

Accounting judgement

Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other long- and short-term risks not reflected in the actuarial inputs, as well as management's view of the uncertainties in relation to the actuarial best estimate.

Source of estimation uncertainty

The Company makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and associated claims handling costs. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2022 amounted to £2,603.8 million (2021: £2,543.9 million).

Claims reserves are assessed separately for large and attritional claims, typically using standard actuarial methods of projection. Key sources of estimation uncertainty include those arising from the selection of specific methods as well as assumptions for claims frequency and severity through the review of historical claims and emerging trends. The Company seeks to adopt a prudent approach to assessing claims liabilities, as evidenced by the favourable development of historical claims reserves.

The corresponding reinsurance recoveries are calculated on an equivalent basis, with similar estimation uncertainty, as discussed in note 1.7. The reinsurance bad debt provision is mainly held against expected recoveries on future PPO payments.

The most common method of settling bodily injury claims is by a lump sum. When this includes an element of indemnity for recurring costs, such as loss of earnings or ongoing medical care, the settlement calculations apply the statutory discount rate (known as the Ogden discount rate) to reflect the fact that payment is made on a one-off basis rather than periodically over time. The current Ogden discount rate is minus 0.25% for England and Wales, minus 0 75% in Scotland, and minus 1.5% in Northern Ireland

The Company reserves its large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0 25% as most will be settled under the law in England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. Sensitivities for the impact of a potential change in the Ogden discount rate are shown in note 3.3.1.

The Company settles some large bodily injury claims as PPOs rather than lump sum payments. The Company has estimated the likelihood of large bodily injury claims settling as PPOs Anticipated PPOs consist of both existing large loss case reserves including allowances for development and claims yet to be reported to the Company. Reinsurance is applied at claim level and the net cash flows are discounted for the time value of money The discount rate is consistent with the expected return on the assets backing these long-term liabilities. In 2022, the Company reviewed the estimates used to discount PPOs as described in note 21 Given the significant changes both in the current economic environment and the longer term outlook, the Company changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns. This resulted overall in the application of a real discount rate of 0 9% (2021 0.0%), the combination of cash flow weighted inflation and discounting of 4 2% and 5.1% respectively, the latter driven by an expected increase in the long-term yield of the assets backing PPO liabilities.

The table in note 21 to the financial statements provides an analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2022 and 31 December 2021 and further details on sources of estimation uncertainty. Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3 3.1

Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, the CPI was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications for the cost of care. Global supply chain issues remain problematic, resulting in a risk of price increases for products and components in short supply. A range of general and specific scenarios for excess inflation have been considered in the reserving process. The percentages applied range from 2% to 5% and for future periods of up to 5 years, depending on the class of business and claim type and allowing for the level of inflation included in the best estimate. The Company has observed a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts. A range of data types and methods are used with historical comparators to assess the underlying position separate from the timing effects to mitigate the uncertainty.

Changes in the climate can impact both frequency and severity of losses, particularly for wind storm and flood events. This is taken into account in the planning process, pricing and through our capital model; the impact on reserves is only seen when major loss events occur.

Changes in claims frequency present greater uncertainty for the unearned part of the business, whereas uncertainty over the level of claims severity has a greater impact on both the earned and unearned claims reserves. Claims severity risk is particularly acute with respect to care costs for large bodily injury claims as well as input costs and replacement costs for damage claims, in particular increased second-hand car costs in Motor. The sensitivity analysis in note 3.3.1 looks at a 200 basis point change in the claims inflation assumed in the actuarial best estimate over the next two years and therefore continues to remain relevant and is within the Group's booked reserve margin. The risk of material adjustments to the Group's estimates which could affect the carrying value in 2023 is highest in relation to long tail classes where inflation has been less evident to date. The Group therefore reserves for the risk of excess inflation on these classes within the management margin

3. Risk management

3.1 Risk management overview

DLIG's Board ("**Group Board**") has responsibility for setting and monitoring adherence to the risk strategy risk appetite and risk framework for the Group, including the Company. The Group Board has established a risk management model that separates the business's risk management responsibilities into "Three lines of defence" as set out below

First line of defence	- Risk ownership
Second line of defence	- Oversight, challenge and support of first line
Third line of defence	- Independent assurance

The DLIG annual report contains a comprehensive review of the risk management framework for the Group. Copies can be obtained from Direct Line Group Secretariat, Churchill Court, Westmoreland Road, Bromley, BR1 1DP, the Registrar of Companies or through DLIG's website at www.directlinegroup.co.uk

3.1.1 Risk strategy and risk appetite

The Group's risk appetite statements express the level of risk the Group is prepared to accept to achieve its business objectives Details of the Group's risk strategy and risk appetite are contained in the DLIG annual report

3.1.2 Enterprise risk management strategy and framework

This sets out, at a high level, the Group's (which includes the Company) approach to setting risk strategy and the Enterprise-wide Risk Management Framework for managing risks. Details of the Group's Enterprise-wide Risk Management Framework are contained in the DLIG annual report.

3.1.3 Potential effects of inflation, economic uncertainty, and the cost of living crisis

The global political situation, including Russia's invasion of Ukraine materially affecting European energy supply, has resulted in high inflation rates, and a cost of living crisis. This compounded with recent UK political instability is likely to result in a longer than expected period of low or negative growth that will significantly impact businesses and customers across the UK well into 2024.

The Company's reserves and claims from underwritten policies are exposed to the risk of changes in claims development patterns arising from inflation. Uncertainty in claims reserves and underwriting risk has significantly increased due to the increase in future inflation and its outlook, and the additional uncertainty when forecasting its impact on claims reserves.

The insurance sectors that the Company operates in are particularly affected by inflation and its impact on the costs of car parts, used car prices, services and care worker labour, and construction materials. This, in addition to the supply chain dislocation has led to materially increased claim severity on Motor damage and Home and Commercial Property claims, with a longer term risk of care worker inflation increasing Motor large bodily injury claims

Inflationary pressures exacerbate the exceedingly difficult trade-offs the Bank of England faces between supporting growth and controlling price pressures and are precipitating a cost of living crisis. The rise of inflation has prompted Central Banks to undergo one of the fastest programmes of interest rate rises in recent history. The Group's Investment and Treasury function has analysed the potential impact of a recession on holdings in the investment portfolio, finding that holdings are relatively safely positioned, helped by solid diversification and good ongoing investment management oversight

Following the end of the transition period on 31 December 2020 and the trade and co-operation agreement between the UK and the EU, there remains uncertainty as to the longer term effect of Brexit on the Group, for example the risk of shortages in tradesman and care workers increasing claims costs.

3. Risk management continued

3.1.4 Climate change

The Company recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change risks can be divided into three categories· physical, transition and liability risks. The climate-related risk in relation to the Group's and Company's liability insurance products remains a less material exposure.

Following the issue of the PRA's Supervisory Statement SS3/19, the Group has appointed the Chief Risk Officer as the Senior Management Function holder for Climate Change and put an initial plan in place to address the expectations set out in the supervisory statement.

The risks and impacts of climate change are wide ranging; the Group and the Company are focusing increasingly on climate change, with related risk management activity which includes broadening the Strategic risk category to include Climate risk within Environmental, Social and Governance risk to allow for better recognition of internal and external drivers of climate related risk and to provide a focal point for the reporting of risks relating to climate change, monitoring climate change through the Emerging Risk process, forming a Climate Change working group and continuing the journey to implement the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures ("**TCFD**").

As part of embedding the management of these climate-related financial risks, the Group and the Company participated in the Bank of England's Climate Biennial Exploratory Scenarios exercise during 2021, and the second round of analysis in early 2022. This stress testing exercise aims to understand the impact on the Group and the Company of future climate scenarios incorporating physical and transition risks. The Group will continue to develop its risk management systems and monitoring tools in for physical risk, building on the work undertaken to complete the Climate Biennial Exploratory Scenario.

3.2 Risk and capital management modelling

The Directors, guided by the Group Board, have ultimate responsibility for ensuring that the Company has sufficient funds to meet its liabilities as they fall due. The Company carries out detailed modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Company's own assessment of its solvency capital requirement ("**SCR**") using its internal model approved by the PRA in 2016. The SCR quantifies the insurance, market, credit and operational risks that the regulated entities are undertaking

The Group Board is closely involved in the SCR process and reviews, challenges and approves its assumptions and results.

3.3 Principal risks from insurance activities and use of financial instruments

The risk management section of the strategic report, in the DLIG annual report, also sets out all the risks assessed by the Company as principal risks Detailed below is the Company's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk, credit risk, operational risk and liquidity risk.

3.3.1 Insurance risk

The Company is exposed to insurance risk as a primary consequence of its business. Key insurance risks focus on the risk of loss due to fluctuations in the timings, amount, frequency and severity of an insured event relative to the expectations at the time of underwriting.

The Company is mainly exposed to the following insurance risks.

Reserve risk

Reserve risk relates to both premium and claims This is the risk of understatement or overstatement of reserves arising from:

- the uncertain nature of claims, in particular large bodily injury claims,
- unexpected future impact of socioeconomic trends or regulatory changes, for example changes to the Ogden discount rate;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market including a slow-down in the processing of recoveries and liabilities with third party insurers which increases the estimation risk of these amounts; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost; for example, lost investment return or insufficient resource to pursue strategic projects and develop the business.

Reserve risk is managed through a range of processes and controls:

- regular reviews of the claims and premiums, along with an assessment of the requirement for a liability adequacy provision for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- use of reinsurance programmes, through Motor, Liability, Property catastrophe, Property risk and Travel, which are *renewable annually*;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves

The Company's reserves are subject to the risk of retrospective changes in judicial conditions such as changes in the Ogden discount rate. Detailed information on the Ogden discount rate is provided in note 2.3.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made, typically over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate.

The table below provides a sensitivity analysis of the potential net impact of a change in a single factor (the internal discount rate used for PPOs, Ogden discount rate or claims inflation) with all other assumptions left unchanged. Other potential risks beyond the ones described could have additional financial impacts on the Company.

	Increase/(decrease) in profit before tax [2]	
	2022	2021
At 31 December	**£m**	£m
PPOs[3]		
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**30.4**	42.2
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(42.1)**	(57.8)
Ogden discount rate[4]		
Impact of the Company reserving at a discount rate of 0.75% compared to minus 0.25%	**46.7**	42.5
Impact of the Company reserving at a discount rate of minus 1.25% compared to minus 0.25%	**(64.2)**	(59.4)
Claims inflation[5]		
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**76.5**	74.3
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(80.5)**	(79.4)

Notes.

1. These sensitivities are net of reinsurance and exclude the impact of taxation
2. These sensitivities reflect one off impacts at the balance sheet date and should not be interpreted as predictions
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.9% for reserving The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Company will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis This is intended to ensure that reserves are appropriate for current and potential future developments
5. We have updated this sensitivity across 2021 and 2022, to a 200 basis point increase/decrease in inflation in acknowledgment of the current uncertain economic environment

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2022. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

There is the risk that claims are reserved or paid inappropriately, including the timing of such activity. However, there are claims management controls in place to mitigate this risk, as outlined below.

- claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner;
- each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside their authority, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements, all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures;
- loss adjusters are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and the Claims Function;
- specialist bodily injury claims teams are responsible for handling these types of losses, with the nature of handling dependent on the level and type of claim. Claims exceeding a certain threshold are referred to the technical and large loss teams who also deal with all other claim types above defined limits or within specific criteria; and
- a process is in place to deal with major weather and other catastrophic events, known as the 'Surge Demand Plan'. A surge is the collective name given to an incident which significantly increases the volume of claims reported to the Company's Claims Function. The plan covers surge demand triggers, stages of incident, operational impact, communication and management information monitoring of the plan.

3. Risk management continued

3.3.1 Insurance risk continued

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Company predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business.

The Company also underwrites commercial risks primarily for low-to-medium risk trades within the small and medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Company's liability usually extends for a 12-month period, after which the Company is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

The Solvency II definition of underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

The key risks relating to climate change today are UK floods and major UK windstorms. The Company recognises that climate change may impact its business over the longer term. In particular, there is a risk that climate change affects the frequency and severity of extreme weather events (physical risk), which will change the Company's view of underwriting risk, reinsurance and pricing. The Company will continue to develop its risk management systems and monitoring tools over 2023, and accelerate the pre-emptive management actions of repricing and reinsurance as well as the strategic management actions relating to flood resilience and underwriting footprint following the second round of the Climate Biennial Exploratory Scenario ("**CBES**") analysis in early 2022. Low-frequency, high-severity weather losses are mitigated to a significant degree by the catastrophe reinsurance programme, the ceding of home high flood risks to Flood Re, and the commercial underwriting strategy which reduces high flood risk exposure. The Company expects these specific risks to materialise in the medium to longer term (see page 74 for definition). Furthermore, there is a risk that the Company's insurance products will not meet its customers' needs as a result of changes in market dynamics and customer behaviour in relation to climate change, for example a rapid shift towards electric vehicle usage. The Company anticipates that its continued strategic and operational response to the transition to a lower-carbon economy will support mitigation of these risks and the associated impacts in the long term.

When underwriting policies, the Company is subject to concentration risk in a variety of forms, including:

- geographic concentration risk - the Company's business is almost wholly written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/ storm surge loss. The programme renews annually on 1 July and the existing cover for the period 1 July 2022 to 30 June 2023 has a retention of £150 million per weather event and an upper limit of £1,350 million;
- product concentration risk - the Company offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers; and
- sector concentration risk - the concentration of the Company to any given industry sector is monitored and analysed in respect of commercial customers to ensure this risk is mitigated

It is important to note that none of these risk categories are independent of the others and that giving due consideration to the relationship between these risks is an important aspect of the effective management of insurance risk.

Distribution risk

This is the risk of a material reduction in profit compared to plan due to the Company not writing its planned policy volumes in each segment.

Pricing risk

This is the risk of economic loss arising from business being incorrectly priced or underwritten.

Reinsurance risk

This is the risk of inappropriate selection and/or placement of reinsurance arrangements, with either individual or multiple reinsurers, which renders the transfer of insurance risk to the reinsurer(s) inappropriate and/or ineffective.

Other risks include:

- reinsurance concentration risk - the concentration of credit exposure to any given counterparty;
- reinsurance capacity being reduced and/or withdrawn;
- underwriting risk appetite and reinsurance contract terms not being aligned;
- reinsurance contract terms being inappropriate or ineffective resulting in classes or types of business not being appropriately reinsured;
- non-adherence to the reinsurance policy terms and conditions, in terms of both policy management and claims not being handled within the reinsurance contract terms and conditions, or paid on an ex-gratia basis, resulting in reinsurance recoveries not being made in full;
- inappropriate or inaccurate management information and/or modelling being used to determine the value for money and purchasing of reinsurance (including aggregate modelling); and
- changes in the external legal, regulatory, social or economic environment (including changes resulting from climate change) altering the definition and application of reinsurance policy wordings or the effectiveness or value for money of reinsurance

The Company uses reinsurance to.

- protect the underwriting result against low-frequency, high-severity losses through the transfer of catastrophe claims volatility to reinsurers;
- protect the underwriting result against unforeseen volumes of, or adverse trends in, large individual claims in order to reduce volatility and to improve stability of earnings;
- reduce the Company's capital requirements; and/or
- transfer risk that is not within the Company's current risk appetite

3.3.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments

The Company is mainly exposed to the following market risk factors

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

The Company has policies and limits approved by the Group Investment Committee for managing the market risk exposure These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits the Company is willing to accept having considered strategy, risk appetite and capital resources.

The Company monitors its market risk exposure on a daily basis and, in addition, has established an aggregate exposure limit consistent with its risk objective to maintain capital adequacy. Interdependencies across risk types have also been considered within the aggregate exposure limit. The allocation of the Company's investments across asset classes has been approved by the Group Investment Committee.

The strategic asset allocation within the investment portfolio is reviewed by the Group Investment Committee, which makes recommendations to the Board for its investment strategy approval. The Group Investment Committee determines policy and controls, covering such areas as risk, liquidity and performance. The Group Investment Committee meets at least three times a year to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it Oversight of the implementation of decisions taken by the Group Investment Committee is via the first and second lines of defence.

During this phase of economic uncertainty maturities from the in-house short and intermediate sterling credit portfolios had not been reinvested up until October, significantly increasing cash reserves and liquidity. However, to improve investment returns with a low risk to solvency, cash was reinvested into £150 million of 3 month Treasury Bills, and £41 million of government related sterling credit maturities during Q4 2022.

The investment management objectives are to:

- maintain the safety of the portfolio's principal both in economic terms and from a capital, accounting and reporting perspective;
- maintain sufficient liquidity to provide cash requirements for operations, including in the event of a catastrophe; and
- maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines and capital allocation.

The Group Investment Committee has agreed long-term targets for the investment portfolio in relation to supporting the Company's objectives on climate change These are: ensuring the Company's entire investment portfolio is net zero emissions by 2050 in line with the aims of the Race to Zero campaign; and an interim target of a 50% reduction in weighted average greenhouse gas emissions intensity by 2030 within the Company's corporate bonds portfolio, the largest part of its investment portfolio, compared to a 2020 baseline. See page 68 of the DLIG Annual Report for more information.

The Company has a property portfolio and an infrastructure debt portfolio to generate a real return which, from an asset and liability matching perspective, is used to offset the liability arising from longer duration PPOs.

When setting the strategic asset allocation, the Company is subject to concentration risk in a variety of forms including:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Concentration risk on investments arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Company may suffer significant losses in its investment portfolio as a result of over-exposure to particular sectors engaged in similar activities or having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

3. Risk management continued

3.3.2 Market risk continued

The table below analyses the distribution of debt securities and other fixed income securities by geographical area.

	Debt securities and other fixed income securities 2022 £m	Debt securities and other fixed income securities 2021 £m
Australia	**116.0**	193.1
Austria	**4.3**	17.7
Belgium	**31.6**	31.6
Canada	**59.8**	99.1
Cayman Islands	**3.7**	4.0
China	**0.6**	1.0
Czech Republic	**0.7**	1.0
Denmark	**17.9**	15.6
Finland	**7.7**	41.5
France	**242.9**	307.5
Germany	**175.7**	242.1
Hong Kong	**9.3**	–
Ireland	**1.4**	1.4
Italy	**16.1**	21.0
Japan	**18.8**	48.6
Luxembourg	**2.6**	–
Mexico	**7.0**	13.1
Netherlands	**100.0**	115.5
New Zealand	**10.0**	11.0
Norway	**17.7**	28.0
Portugal	**6.7**	4.9
South Africa	**6.0**	10.6
South Korea	**–**	3.0
Spain	**56.5**	74.3
Sweden	**23.9**	65.8
Switzerland	**50.0**	57.3
United Arab Emirates	**3.5**	3.5
United Kingdom	**1,302.3**	1,157.3
USA	**926.5**	1,545.8
Zambia	**1.3**	1.2
Supranational	**25.2**	14.0
Total	**3,245.7**	4,130.5

The tables below analyses the distribution of debt securities and other fixed income securities held across industry sector classifications

At 31 December	2022 £m	2022 %	2021 £m	2021 %
Basic materials	**48.8**	**1%**	77.8	2%
Communications	**131.1**	**4%**	202.1	5%
Consumer, cyclical	**274.7**	**8%**	410.3	10%
Consumer, non-cyclical	**223.0**	**7%**	357.1	9%
Diversified	**14.3**	**0%**	19.2	0%
Energy	**81.2**	**3%**	152.8	4%
Financial	**1,452.9**	**45%**	2,017.4	49%
Industrial	**158.5**	**5%**	250.5	6%
Sovereign, supranational and local government	**542.4**	**17%**	77.7	2%
Technology	**50.2**	**2%**	121.5	3%
Transport	**13.4**	**0%**	13.4	0%
Utilities	**255.2**	**8%**	430.7	10%
Total	**3,245.7**	**100%**	4,130.5	100%

The table below analyses the distribution of other loans by industry sector classifications.

At 31 December	2022 £m	2022 %	2021 £m	2021 %
Social, of which:				
Education	**105.8**	**24%**	110.3	24%
Health	**64.1**	**15%**	67.2	15%
Other	**47.8**	**11%**	49.0	11%
Total Social	**217.7**	**50%**	226.5	50%
Transport	**20.5**	**5%**	24.3	6%
Other sectors	**201.0**	**46%**	200.8	44%
Total	**439.2**	**100%**	451.6	100%

The Company uses its internal economic capital model to determine its capital requirements and market risk limits and monitors its market risk exposure based on a 99.5% value-at-risk measure. The Company also applies market risk stress and scenario testing for the economic impact of specific severe market conditions. The results of this analysis are used to enhance the understanding of market risk. The market risk minimum standard explicitly prohibits the use of derivatives for speculative or gearing purposes. However, the Company is able to and does use derivatives for hedging its currency risk and interest rate risk exposures.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher-risk assets. The Company is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

The Company's exposure to credit spread widening was partly de-risked in August via the sale of approximately £670 million of longer-dated US dollar investment grade credit.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or interest rate volatility which impact assets and liabilities. The Company's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Company also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Company's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro debt securities, the Company hedges its exposure to US dollar and Euro interest rate risk using swaps, excluding £286.8 million of US dollar short-duration, high-yield bonds (2021: £348 6 million), £134 4 million of US dollar subordinated financial debt and £93.6 million of Euro subordinated financial debt (2021: £123.9 million and £96.2 million, respectively).

The Company is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The first two were subject to interest rate benchmark reform during 2021 (historically both LIBOR). The hedged items include holdings of US dollar and Euro denominated fixed rate debt securities.

3. Risk management continued

3.3.2 Market risk continued

Net interest rate risk continued

Not all the infrastructure loans as at 31 December 2022 have transitioned away from GBP LIBOR over to GBP SONIA. Where legal documentation has yet to be completed, in the immediate future reference of rates will be linked to synthetic GBP LIBOR

The table below discloses in more detail for the transition from LIBOR to GBP SONIA for infrastructure loans.

Non-derivative floating rate financial instruments prior to transition	Maturing in	Number of instruments	Nominal exposure (£m)	Transition progress
Infrastructure debt linked to LIBOR	2024 - 2040	28	238.2	- *23 loans have completed transition to SONIA;* - five loans (totalling £67.9 million) are yet to transition to SONIA, of which: (i) four loans are expected to transition from 6 month GBP synthetic LIBOR to SONIA on the next roll date at the end of March 2023; and (ii) one loan (totalling £7.6 million) will be repaid in full early in Q2 2023.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. As at 31 December 2022, the value of land and buildings was £278.5 million (2021: £317.0 million). The land and buildings are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates.

Exposure to currency risk is generated by the Company's investments in US dollar and Euro denominated debt bonds.

The Company maintains exposure to US dollar securities through £751.0 million (2021: £1,376.5 million) of investments in US dollar bonds and Euro securities through £165.4 million (2021: £197.7 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Company's insurance and other contractual liabilities.

Currency risk is not considered to be material.

Use of derivatives

As mentioned above, the Company uses derivatives to hedge against interest rate and currency risk.

The tables below analyse the maturity of the Company's derivative assets and liabilities.

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 - 5 years	Over 5 years	Total
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative assets					
At fair value through the profit and loss account					
Foreign exchange contracts (forwards)	**1,014.4**	24.2	–	–	**24.2**
Designated as hedging instruments					
Interest rate swaps	**240.4**	6.0	0.5	0.5	**7.0**
Total	**1,254.8**	**30.2**	**0.5**	**0.5**	**31.2**

	Notional amounts	Maturity and fair value			
		Less than 1 year	1 - 5 years	Over 5 years	Total
At 31 December 2022	**£m**	£m	£m	£m	**£m**
Derivative liabilities					
At fair value through the profit and loss account					
Foreign exchange contracts (forwards)	**1,190.4**	28.4	–	–	**28.4**
Designated as hedging instruments					
Interest rate swaps	**107.6**	–	0.2	1.0	**1.2**
Total	**1,298.0**	**28.4**	**0.2**	**1.0**	**29.6**

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 - 5 years £m	Over 5 years £m	Total £m
Derivative assets					
At fair value through the profit and loss account					
Foreign exchange contracts (forwards)	1,695.4	27.8	—	—	27.8
Interest rate swaps	250.0	2.4	—	—	2.4
Designated as hedging instruments					
Interest rate swaps	901.0	(0.9)	3.6	3.0	5.7
Total	2,846.4	29.3	3.6	3.0	35.9

At 31 December 2021	Notional amounts £m	Maturity and fair value: Less than 1 year £m	1 - 5 years £m	Over 5 years £m	Total £m
Derivative liabilities					
At fair value through the profit and loss account					
Foreign exchange contracts (forwards)	1,318.9	19.1	—	—	19.1
Designated as hedging instruments					
Interest rate swaps	9.1	—	—	0.1	0.1
Total	1,328.0	19.1	—	0.1	19.2

Sensitivity analysis

The table below provides the sensitivity analysis of the potential impact on financial investments and derivatives of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Company.

	Increase/(decrease) in profit before tax		Decrease in shareholder's funds at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Spread				
Impact of a 100 basis points increase in spreads on financial investments[2,3]	**—**	—	**(82.3)**	(144.2)
Interest rate				
Impact of a 100 basis points increase in interest rates on financial investments and derivatives[2,3,4]	**5.9**	11.8	**(70.6)**	(100.5)
Investment property				
Impact of a 15% decrease in property markets	**(41.8)**	(47.5)	**(41.8)**	(47.5)

Notes

These sensitivities exclude the impact of taxation and have not considered the impact of the general market changes on the value of the Company's insurance liabilities. They reflect one-off impacts at 31 December and should not be interpreted as predictions.

2 The profit and loss account impact on financial investments is limited to floating rate instruments and interest rate derivatives used to hedge a portion of the portfolio. The profit and loss account is not impacted in relation to fixed rate instruments, in particular AFS debt securities, where the coupon return is not impacted by a change in prevailing market rates, as the accounting treatment for AFS debt securities means that only the coupon received is processed through the profit and loss account with fair value movements being recognised through equity.

3 The increase or decrease in shareholder's funds does not reflect any fair value movement in infrastructure debt, commercial real estate loans and HTM debt securities that would not be recorded in the financial statements under IFRSs as they are classified as loans and receivables and HTM respectively which are carried at amortised cost. It is estimated that a fair value reduction in these asset categories resulting from a 100 basis points increase in spreads would have been £12.1 million (2021: £13.7 million) and a 100 basis points increase in interest rates would have been £3.7 million (2021: £4.8 million).

4 The sensitivities set out above reflect one off impacts at 31 December, with the exception of the profit and loss account interest rate sensitivity on financial investments and derivatives which projects a movement in a full year's interest charge as a result of the increase in the interest rate applied to these assets or liabilities on those positions held at 31 December.

The Company has a number of open interest rate and foreign exchange derivative positions. Collateral management arrangements are in place for significant counterparty exposures. At 31 December 2022 the Company has pledged £19.2 million in cash (2021: £26.3 million) to cover initial margins and out-of-the-money derivative positions. At 31 December 2022, counterparties have pledged £7.1 million in cash and £nil million in UK Gilts (2021: £5.4 million in cash and £2.2 million in UK Gilts) to the Company to cover in-the-money derivative positions.

The terms and conditions of collateral pledged for both assets and liabilities are market-standard. When securities are pledged they are required to be readily convertible to cash, and as such no policy has been established for the disposal of assets not readily convertible into cash

3. Risk management continued

3.3.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Company is exposed. The Company is mainly exposed to counterparty default risk.

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Company undertakings. This risk is monitored by three forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk; and the NIG Credit Committee is responsible for monitoring broker credit risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Company are identified, monitored and measured.

The main sources of counterparty default risk for the Company are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
- reinsurance recoveries – this arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
- commercial credit – this arises as brokers collect premiums on behalf of the Company; and
- consumer credit – exposure from offering monthly instalments on annual insurance contracts.

The Company cedes insurance risk to reinsurers but, in return, assumes counterparty default risk against which a reinsurance bad debt provision is assessed. The financial security of the Company's panel of reinsurers is therefore important and both the quality and amount of the assumed counterparty default risk are subject to an approval process whereby reinsurance is only purchased from reinsurers that hold a credit rating of at least A– at the time cover is purchased. The Company's leading counterparty exposures are reviewed on a quarterly basis by the Reinsurance and Credit Manager. The Company aims to deal with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

The following tables analyse the carrying value of financial and insurance assets that bear counterparty default risk between those assets that have not been impaired, and by age in relation to due date, and those that have been impaired. The Company's maximum exposure to credit risk is represented by the carrying values of the financial assets and insurance assets listed below. The Company does not use credit derivatives or similar instruments to mitigate exposure.

At 31 December 2022	**Neither past due nor impaired** £m	Past due 1 90 days £m	Past due more than 90 days £m	**Carrying value in the balance sheet** £m
Debt securities and other fixed income securities	**3,245.7**	—	—	**3,245.7**
Other loans	**439.2**	—	—	**439.2**
Derivative financial instruments	**31.2**	—	—	**31.2**
Reinsurers' share of technical provisions[1,2]	**1,028.8**	—	0.1	**1,028.9**
Debtors	**909.0**	9 0	—	**918.0**
Cash at bank and in hand[3]	**864.9**	—	—	**864.9**
Total	**6,518.8**	**9.0**	**0.1**	**6,527.9**

At 31 December 2021	Neither past due nor impaired £m	Past due 1 90 days £m	Past due more than 90 days £m	Carrying value in the balance sheet £m
Debt securities and other fixed income securities	4,130.5	—	—	4,130.5
Other loans	451.6	—	—	451.6
Derivative financial instruments	35.9	—	—	35.9
Reinsurers' share of technical provisions[1,2]	1,182 5	—	6.8	1,189.3
Debtors	760.7	—	—	760 7
Cash at bank and in hand[3]	723.2	—	—	723.2
Total	7,284.4	—	6.8	7,291.2

Notes

1 None of these amounts fall due after more than one year

2 Reinsurers share of technical provisions previously included reinsurers unearned premium reserve with comparative data for the year ended 31 December 2021 re presented accordingly This change was made due to reinsurers unearned premium reserves being assessed as having no inherent credit risks.

3 This represents money market funds with no notice period for withdrawal and cash at bank

Within the analysis of debt securities above are bank debt securities at 31 December 2022 of £961 2 million (2021: £1,350.6 million) that can be further analysed as: secured £11.2 million (2021: £15.5 million); unsecured £795.3 million (2021: £1,178.0 million); and subordinated £154.7 million (2021: £157.1 million).

The tables below analyse the credit quality of debt securities and other fixed income securities that are neither past due nor impaired.

	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
At 31 December 2022	**123.9**	**644.3**	**1,268.5**	**920.1**	**287.2**	**1.7**	**3,245.7**
At 31 December 2021	88.4	372.9	1,888.0	1,429.0	352.2	—	4,130.5

The tables below analyse the credit quality of financial and insurance assets that are neither past due nor impaired (excluding debt securities analysed above). The tables include reinsurance exposure, after impairment provision. The Company's approach to reinsurance counterparty default risk management is detailed on page 38.

At 31 December 2022	AAA £m	AA+ to AA £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Other loans	15.7	64.1	126.3	217.1	14.1	1.9	**439.2**
Derivative financial instruments	—	7.9	23.3	—	—	—	**31.2**
Reinsurers' share of technical provisions[1]	—	516.0	511.5	1.4	—	—	**1,028.9**
Debtors[2]	—	8.7	48.2	3.3	—	848.8	**909.0**
Cash at bank and in hand[3]	747.7	7.8	108.5	0.9	—	—	**864.9**
Total	**763.4**	**604.5**	**817.8**	**222.7**	**14.1**	**850.7**	**3,273.2**

At 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	BB+ and below £m	Not rated £m	Total £m
Other loans	17.7	73.3	134.8	210.0	15.8	—	451.6
Derivative financial instruments	—	7.9	9.9	18.1	—	—	35.9
Reinsurers' share of technical provisions[1]	—	637.5	528.2	1.9	—	14.9	1,182.5
Debtors[2]	—	37.4	27.3	11.5	—	684.5	760.7
Cash at bank and in hand[3]	569.7	26.2	123.7	3.6	—	—	723.2
Total	587.4	782.3	823.9	245.1	15.8	699.4	3,153.9

Notes
1 Reinsurers share of technical provisions previously included reinsurers unearned premium reserve. Comparative data for the year ended 31 December 2021 has been re-presented accordingly
2 Includes receivables due from policyholders, agents, brokers and intermediaries which generally do not have a credit rating
3 This represents money market funds with no notice period for withdrawal and cash at bank and in hand

3.3.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events. Material sources of operational risk for the Company include:

Change risk

This is the risk of failing to manage the Company's business change portfolio resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

Technology and infrastructure risk

This is the risk that the IT infrastructure is insufficient to deliver the Company's strategy.

Supplier management and outsourcing risk

This is the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of third-party suppliers, outsourced service providers and intra-group relationships This includes both domestic and offshore outsourcing activities.

Cyber risk

This is the risk of loss or corruption to Company or customer data, intellectual property or failure of business-critical systems resulting in reputational damage, regulatory censure, supervision, fines and/or loss of competitive advantage.

Partnership contractual obligations

This is the risk of contractual obligations not being delivered for business partners resulting in damaged reputation, the loss of contract at renewal, significant liability payments and/or the early termination of a partnership scheme.

The Company has in place agreed policies and standards to establish and monitor key controls relating to operational risk.

3. Risk management continued

3.3.4 Operational risk continued

Risk concentrations and management

The Company is subject to concentration in its operational risks through, for example, its IT systems and change programmes; which include the risk of losses in a number of scenarios such as system outages and data security breaches. Technology remains at the heart of the Company operations and focus is on upgrading Company IT systems and capabilities, aimed at expanding the Company's digital offerings, capitalising on the Company's data, improving customer experience and overall increasing operational efficiency.

The Company proactively manages its operational risks to mitigate potential customer harm, regulatory or legal censure, financial and reputational impacts. The Company has in place operational processes and systems, including prevention and detection measures These include processes which seek to ensure the Company can absorb and/or adapt to internal or external events that could impact customer operations and the wider business, as well as to learn from these situations to improve the Company's overall risk and control systems moving forward.

The Group's risk management framework is designed to enable it to capture risk information in a complete and consistent way, enabling proactive trend analysis, root cause analysis and read across to facilitate early warnings and a 'learning' risk environment.

3.3.5 Liquidity risk

This is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations as they fall due.

The measurement and management of the Company's liquidity risk is undertaken within the limits and other policy parameters of the Company's liquidity risk appetite and is detailed in the liquidity risk minimum standard As part of this process, the Investment and Treasury team is required to put in place a liquidity plan which must consider expected and stressed scenarios for cash inflows and outflows that is reviewed at least annually by the Group Investment Committee Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

The following table analyses the carrying value of financial investments and cash at bank and in hand, by contractual maturity, which are able to fund the repayment of liabilities as they crystallise.

At 31 December 2022	Within 1 year £m	1 - 3 years £m	3 - 5 years £m	5 10 years £m	Over 10 years £m	**Total £m**
Debt securities and other fixed income securities	798.6	979.1	807.4	531.7	128.9	**3,245.7**
Other loans	74.7	97.8	123.1	92.0	51.6	**439.2**
Cash at bank and in hand[1]	864.9	—	—	—	—	**864.9**
Total	**1,738.2**	**1,076.9**	**930.5**	**623.7**	**180.5**	**4,549.8**

At 31 December 2021	Within 1 year £m	1 3 years £m	3 - 5 years £m	5 10 years £m	Over 10 years £m	Total £m
Debt securities and other fixed income securities	461.8	972.7	1,293.2	1,280.9	121.9	4,130.5
Other loans	101.6	88.4	94.0	101.7	65.9	451.6
Cash at bank and in hand[1]	723.2	—	—	—	—	723.2
Total	1,286.6	1,061.1	1,387.2	1,382.6	187.8	5,305.3

Note

1 This represents money market funds with no notice period for withdrawal and cash at bank and in hand

The following table analyses the undiscounted cash flows of insurance and financial liabilities by contractual repricing or maturity dates, whichever is earlier.

Notes to the financial statements

For the year ended 31 December 2022

At 31 December 2022	Less than 1 year £m	1 - 3 years £m	3 - 5 years £m	5 - 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Claims outstanding[1]	1,315.6	921.3	435.5	382.1	1,575.3	**4,629.8**	3,632.7
Creditors arising out of direct insurance operations	3.4	—	—	—	—	**3.4**	3.4
Creditors arising out of reinsurance operations	57.4	—	—	—	—	**57.4**	57.4
Amounts due to Group undertakings	41.4	—	—	—	—	**41.4**	41.4
Amounts owed to credit institutions	60.6	—	—	—	—	**60.6**	60.6
Lease liabilities	5.9	11.7	11.7	29.3	27.8	**86.4**	65.1
Other creditors including taxation and social security	185.0	—	—	—	—	**185.0**	185.0
Total	**1,669.3**	**933.0**	**447.2**	**411.4**	**1,603.1**	**5,064.0**	**4,045.6**

At 31 December 2021	Less than 1 year £m	1 - 3 years £m	3 - 5 years £m	5 - 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Subordinated liabilities	261.9	—	—	—	—	261.9	255.3
Claims outstanding[1]	1,184.0	994.9	478.8	381.8	1,470.7	4,510.2	3,653.5
Creditors arising out of direct insurance operations	4.1	—	—	—	—	4.1	4.1
Creditors arising out of reinsurance operations	45.5	—	—	—	—	45.5	45.5
Amounts due to Group undertakings	86.8	—	—	—	—	86.8	86.8
Amounts owed to credit institutions	51.6	—	—	—	—	51.6	51.6
Lease liabilities	5.7	11.4	11.4	28.4	32.7	89.6	66.2
Other creditors including taxation and social security	163.5	—	—	—	—	163.5	163.5
Total	1,803.1	1,006.3	490.2	410.2	1,503.4	5,213.2	4,326.5

Note

1 Claims outstanding exclude reserve for unearned premiums as there are no liquidity risks inherent in them

The following table analyses the undiscounted cash flows of derivative financial instruments, by contractual maturity.

At 31 December 2022	Within 1 year £m	1 - 3 years £m	3 - 5 years £m	5 - 10 years £m	Over 10 years £m	**Total £m**	Carrying value £m
Derivative assets	31.5	—	—	—	—	**31.5**	31.2
Derivative liabilities	(29.6)	—	—	—	—	**(29.6)**	(29.6)
Total	**1.9**	**—**	**—**	**—**	**—**	**1.9**	**1.6**

At 31 December 2021	Within 1 year £m	1 - 3 years £m	3 - 5 years £m	5 - 10 years £m	Over 10 years £m	Total £m	Carrying value £m
Derivative assets	27.4	3.1	3.2	2.8	—	36.5	35.9
Derivative liabilities	(19.2)	—	—	—	—	(19.2)	(19.2)
Total	8.2	3.1	3.2	2.8	—	17.3	16.7

3. Risk management continued

3.4 Capital management

The Company manages capital in accordance with the Group's capital management minimum standard, the aims of which are to manage capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, credit rating agency and policyholder requirements. The Company seeks to hold capital resources such that, in normal circumstances, the solvency capital ratio is maintained above a minimum threshold of 128% of its SCR.

The Company's regulatory capital position is assessed against the Solvency II framework. From 1 July 2016, the Company gained approval to assess its SCR using an internal model, including an internal economic capital model. The model is calibrated to a 99.5% confidence interval and considers business written to date and one year of future written business over a one-year time horizon, in line with Solvency II requirements.

During the year, the Company complied with all external capital requirements.

3.5 Capital adequacy (unaudited)

Using the Company's internal model, there is a capital surplus of approximately £0.32 billion above an estimated SCR of £1.17 billion as at 31 December 2022 (31 December 2021: £0.79 billion and £1.30 billion respectively). The Company's capital requirements and solvency position are produced and presented to the Company board on a regular basis.

4. Segmental analysis

The Chief Operating decision makers, being the Acting Chief Executive Officer and the Chief Financial Officer, regularly review the operating results at the segmental level as described below and disclosed in the tables in this note to assess performance and make decisions about allocation of resources.

Motor

This segment consists of personal motor insurance together with the associated legal protection cover. The Company sells motor insurance direct to customers through the Group's own brands Direct Line, Churchill, Privilege and Darwin, and through partnership brands such as vehicle manufacturers and through price comparison websites ("**PCWs**").

Home

This segment consists of home insurance together with associated legal protection cover. The Company sells home insurance products through the Group's brands Direct Line, Churchill and Privilege, and its partnership brands (Royal Bank of Scotland and NatWest), as well as through PCWs.

Rescue and other personal lines

This segment consists of rescue products which are sold direct through the Group's own brand, Green Flag, and other personal lines insurance, including travel, pet and creditor sold through its own brands Direct Line, Churchill and Privilege, and through partnership brands and through PCWs.

Commercial

This segment consists of commercial insurance for small and medium-sized enterprises sold through the Group's brands NIG, Direct Line for Business and Churchill. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business sells its products directly to customers, and Churchill sells its products directly to customers and through PCWs.

Run-off partnerships

The Company has run-off, or is seeking to run-off, three partnerships which will reduce its exposure to low margin packaged bank accounts so it can redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, where the Company has indicated that it will not be seeking to renew.

No inter-segment transactions occurred in the year ended 31 December 2022 (2021: £nil). If any transaction were to occur, transfer prices between operating segments would be set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation. For each operating segment, there is no individual policyholder or customer that represents 10% or more of the Company's total revenue.

The following table analyses the Company's technical account by reportable segment for the year ended 31 December 2022.

	Motor	Home	Rescue and other personal lines	Commercial	**Total - ongoing operations**	Run-off partnerships[1]	**Total**
	£m	£m	£m	£m	**£m**	£m	**£m**
Earned premiums, net of reinsurance	1,412.6	517.3	272.8	642.4	**2,845.1**	122.1	**2,967.2**
Claims incurred, net of reinsurance	(1,357.5)	(414.8)	(147.2)	(354.7)	**(2,274.2)**	(110.4)	**(2,384.6)**
Net operating expenses	(430.4)	(140.8)	(76.7)	(264.2)	**(912.1)**	(25.1)	**(937.2)**
Balance on technical account for general business	(375.3)	(38.3)	48.9	23.5	(341.2)	(13.4)	**(354.6)**
Movement on non-technical account							**216.8**
Loss on ordinary activities before taxation							**(137.8)**
Loss ratio	96%	80%	54%	55%	**80%**	90%	**80%**
Expense ratio and commission ratio	30%	27%	28%	41%	**32%**	21%	**32%**
Combined operating ratio	**126%**	**107%**	**82%**	**96%**	**112%**	**111%**	**112%**

	Motor	Home	Rescue and other personal lines	Commercial	**Total - ongoing operations**	Run off partnerships[1]	**Total**
	£m	£m	£m	£m	**£m**	£m	**£m**
Segment assets	4,843.2	836.6	108.5	1,312.8	**7,101.1**	60.5	**7,161.6**
Segments liabilities	(3,834.6)	(662.4)	(85.9)	(1,039.3)	**(5,622.2)**	(47.9)	**(5,670.1)**
Segment net assets	**1,008.6**	**174.2**	**22.6**	**273.5**	**1,478.9**	**12.6**	**1,491.5**

Note

[1] Ongoing operations and run-off partnerships - See glossary on pages 251o 253 in the DLG Annual Report for definitions

4. Segmental analysis continued

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments

The following table analyses the Company's technical account by reportable segment for the year ended 31 December 2021.

	Motor	*Home*	*Rescue and other personal lines*	*Commercial*	*Total - ongoing operations*	*Run-off partnerships*	*Total*
	£m	£m	£m	£m	£m	£m	£m
Earned premiums, net of reinsurance	1,473.3	553.4	272.3	561.2	2,860.2	97.2	2,957.4
Claims incurred, net of reinsurance	(1,038.5)	(280.4)	(135.6)	(312.7)	(1,767.2)	(49.8)	(1,817.0)
Net operating expenses	(460.4)	(179.8)	(81.0)	(252.3)	(973.5)	(60.2)	(1,033.7)
Balance on technical account for general business	(25.6)	93.2	55.7	(3.8)	119.5	(12.8)	106.7
Movement on non-technical account							228.0
Profit on ordinary activities before taxation							334.7
Loss ratio	70%	51%	50%	56%	62%	51%	61%
Expense ratio and commission ratio	31%	32%	30%	45%	34%	62%	35%
Combined operating ratio	101%	83%	80%	101%	96%	113%	96%

	Motor	Home	Rescue and other personal lines	Commercial	**Total - ongoing operations**	Run-off partnerships	**Total**
	£m	£m	£m	£m	**£m**	£m	**£m**
Segment assets	5,603.6	684.6	115.0	1,423.1	7,826.3	92.1	7,918.4
Segments liabilities	(4,261.4)	(520.7)	(87.5)	(1,082.2)	(5,951.8)	(70.0)	(6,021.8)
Segment net assets	1,342.2	163.9	27.5	340.9	1,874.5	22.1	1,896.6

The segmental analysis of assets and liabilities is prepared using a combination of asset and liability balances directly attributable to each operating segment and an apportionment of assets and liabilities managed at a Group-wide level. This does not represent the Group's view of the capital requirements for its operating segments.

Note:

* Ongoing operations and run off partnerships - See glossary on pages 251 to 253 in the DLG Annual Report for definitions. Run-off partnerships was previously included in Rescue and other personal lines segment and the comparative data for year ended 31 December 2021 has been re-presented accordingly

5. Net operating expenses

	2022	2021
	£m	£m
Acquisition of insurance contracts	**405.9**	433.1
Change in deferred acquisition costs	**6.9**	(10.3)
Loss on termination of property lease*	**–**	83.9
Administration expenses	**524.4**	527.0
Total	**937.2**	1,033.7

Note:

* As part of the review of the Group's office site property strategy on 10 February 2021, the Company signed a contract in relation to its Bromley site to surrender the current lease and DL Insurance Services Limited signed a contract to purchase the head lease

Employees

The Company had no employees during the year ended 31 December 2022 (2021: none).

Auditor's remuneration

Fees for audit and non-audit services of the Company's financial statements, included within administration expenses, are borne and recharged by a related party, DL Insurance Services Limited.

Fees paid to the Auditor in respect of the statutory audit of the Company amount to £2,247,418 (2021: £1,549,000)

Fees in respect of the audit of the Solvency II Financial Condition Report amount to £95,814 (2021: £109,000).

Directors' emoluments

The total Directors' remuneration as disclosed in the 2022 DLIG annual report is as follows:

	2022 £m	2021 £m
Salaries, fees, bonuses and benefits in kind	**2.6**	3.5
Gains on exercise of share options	**1.8**	0.8
Total	**4.4**	4.3

At 31 December 2022, no Directors (2021: no Directors) had retirement benefits accruing under the defined contribution pension scheme in respect of qualifying service. During the year ended 31 December 2022, two Directors exercised share options (2021: two Directors). The full details of the Directors' remuneration, including those of the highest paid director are provided in full in the Directors' Remuneration Report in the 2022 DLIG annual report.

6. Investment income

	2022 £m	2021 £m
Income from land and buildings	**14.6**	14.4
Income from other investments[1]	**107.6**	101.6
Total	**122.2**	116.0

Note:
1 Income from other investments includes those measured at amortised cost of £30.9 million (2021: £13.0 million) and those measured at fair value through other comprehensive income of £76.7 million (2021: £88.6 million).

The following tables analyse the realised and unrealised gains and losses on derivative instruments included in investment income.

	Realised 2022 £m	Unrealised 2022 £m	Realised 2021 £m	Unrealised 2021 £m
Net (losses)/gains:				
AFS debt securities	**(24.9)**	**–**	8.6	–
Hedging	**(31.0)**	**25.0**	(5.2)	(8.1)
Land and buildings	**–**	**(39.1)**	0.2	37.6
Total	**(55.9)**	**(14.1)**	3.6	29.5

Total investment income decreased by £96.7 million to £50.3 million (2021: £147.0 million) primarily driven by realised and unrealised losses resulting from write downs in fair value adjustments of commercial property (£39.1 million) and £24.9 million of realised losses from disposals of Company debt security holdings, predominantly relating to actions taken to reduce the Company's longer duration US dollar credit holding.

	2022 £m	2021 £m
Foreign exchange hedging:		
Foreign exchange forward contracts[1]	**(184.1)**	(2.6)
Associated foreign exchange risk	**188.0**	1.9
Net gains/(losses) on foreign exchange hedging	**3.9**	(0.7)
Interest rate hedging:		
Gains on interest rate swaps[1] designated as hedge instruments	**68.8**	33.5
Change in fair value on designated hedge items	**(78.5)**	(35.1)
Interest rate hedging ineffectiveness	**(9.7)**	(1.6)
Undesignated interest rate hedging losses	**(0.2)**	(11.0)
Net losses on interest rate hedging	**(9.9)**	(12.6)
Total hedging losses	**(6.0)**	(13.3)

Note
1 All foreign exchange forward contracts and certain interest rate swaps are measured at fair value through the profit and loss account. There are also interest rate swaps designated as hedging instruments.

6. Investment income continued

The Company holds fixed rate USD and EUR denominated bonds whose fair value is exposed to movements in interest rates. In order to economically hedge the interest rate risk of these bonds the Company enters into hedges paying a fixed rate and receiving floating interest rate swaps, which are subsequently designated as hedging instruments in a fair value hedge.

At 31 December 2022 the total USD and EUR denominated bonds was £916.4 million (2021: £1,574.2 million). The notional exposure of the interest rate swaps at 31 December 2022 was an asset of £240.4 million and a liability of £107.6 million (2021: asset of £901.0 million and a liability of £9.1 million). The hedged risk is the change in the fair value of the bonds which is attributable to changes in the SOFR and EURIBOR curves.

The table below analyses investment expenses and charges:

	2022 £m	2021 £m
Impairment of financial investments	**1.8**	2.1
Interest expense on subordinated loan	**7.5**	23.8
Net interest received on interest rate swap[1]	**(2.2)**	(5.3)
Unrealised losses on interest rate swap	**2.4**	5.8
Amortisation of fair value hedging adjustment of subordinated liabilities	**(1.1)**	(3.6)
Investment fees	**9.5**	9.5
Interest expense on lease liabilities	**2.6**	2.7
Total	**20.5**	35.0

Note

1. As described in note 20, on 27 April 2012 the Group issued subordinated guaranteed dated Tier 2 notes with a nominal value of £500 million at a fixed rate of 9.25%. On the same date, DLIG issued a loan of £500 million to the Company at a fixed rate of 9.5%. The Company also entered into a 10-year interest rate swap *to exchange the fixed rate on the notes, issued by the Group, for a floating rate. On 8 December 2017 the Company revised the hedge reflecting the repurchase* by the Group of subordinated guaranteed dated notes with a nominal value of £250 million. On 31 July 2020, the Company identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 'Financial instruments: Recognition and Measurement' and, under the rules of the standard, the accumulated hedging adjustment was amortised to the profit and loss account from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation. The remaining notes with a nominal value of £250 million were redeemed in full on 27 April 2022.

7. Other income

	2022 £m	2021 £m
Instalment income	**92.3**	97.3
Revenue from contracts with customers:		
Panel fees	**74.0**	—
Vehicle replacement referral income	**14.6**	13.1
Other income	**4.2**	3.5
Total	**185.1**	113.9

8. Taxation

	2022 £m	2021 £m
Current taxation:		
(Credit)/charge for the year	**(26.7)**	83.5
Over-provision in respect of prior year	**(0.2)**	–
	(26.9)	83.5
Deferred taxation:		
Charge/(credit) for the year	**0.4**	(3.6)
Under-provision in respect of prior year	**0.2**	–
	0.6	(3.6)
Current taxation	**(26.9)**	83.5
Deferred taxation	**0.6**	(3.6)
Tax (credit)/charge for the year	**(26.3)**	79.9

The following table analyses the difference between the actual income tax charge and the expected income tax charge computed by applying the standard rate of UK corporation tax of 19%[1] (2021: 19%).

	2022 £m	2021 £m
(Loss)/profit before tax	**(137.8)**	334.7
Expected tax (credit)/charge for the year	**(26.2)**	63.6
Effects of		
Disallowable expenses	**–**	17.3
Non-taxable items	**(0.1)**	(0.2)
Effect of change in corporation taxation rate[1]	**–**	(0.8)
Tax (credit)/charge for the year	**(26.3)**	79.9
Effective income tax rate	**19.1%**	23.9%

Note

1 In the Finance Act 2021 the UK Government enacted, on 10 June 2021, an increase in the UK corporation tax rate from 19% to 25% effective from 1 April 2023 As a consequence the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the temporary differences reverse The impact of this change on the tax charge for the year is set out in the table above

The aggregate current and deferred tax relating to items that are charged or credited to equity is £nil (2021: £nil).

The table below analyses the major deferred tax assets and liabilities recognised by the Company and movements thereon.

	Non-distributable reserve £m	Provisions and other temporary differences £m	AFS revaluation reserve £m	Total £m
At 1 January 2021	(4.8)	4.6	(19.6)	(19.8)
Credit/(charge) to the profit and loss account	4.8	(1.1)	(0.1)	3.6
Credit to other comprehensive income	–	–	17.2	17.2
At 31 December 2021	–	3.5	(2.5)	1.0
Charge to the profit and loss account	**–**	**(0.4)**	**(0.2)**	**(0.6)**
Credit to other comprehensive income	**–**	**–**	**67.4**	**67.4**
At 31 December 2022	**–**	**3.1**	**64.7**	**67.8**

Note

The non-distributable reserve was a statutory claims equalisation reserve calculated in accordance with the rules of the PRA With the introduction of Solvency II on 1 January 2016 the requirement to maintain the reserve ceased and the balance as at 31 December 2015 was taxed over the following six years This was provided for in deferred tax above, as it represented the future unwind of previously claimed tax deductions for transfers into this reserve This was fully unwound at 31 December 2021

In addition, the company has an unrecognised deferred tax asset at 31 December 2022 of £0.2 million (2021· £0 2 million) in relation to capital losses, of which £0 2 million (2021· £0.2 million) relates to realised losses and £nil (2021: £nil) relates to unrealised losses.

8. Taxation continued

Deferred tax assets have been recognised in respect of AFS reserves and all other temporary differences because it is probable that these assets will be recovered, with the exception of unrecognised capital losses where recovery is uncertain as they are dependent on realising future capital gains. The deferred tax asset of £64.7 million in respect of AFS reserves relates to temporary differences arising from unrealised losses. These will be relieved for tax over 10 years as a result of the adoption of IFRS9 on 1 January 2023 triggering a tax transitional adjustment. Other deferred tax assets will be recovered over a period of one to 13 years. Recovery of deferred tax assets is dependent on future taxable profits which are expected to arise in future years without the one-off combination of factors which led to the trading loss for 2022. Probability of recovery has been assessed based on the group's forecasts for the next four years which anticipate a return to profitability, and it is assumed that sufficient profits will continue to be realised in subsequent years for offset of the remaining future tax deductions.

9. Dividends

	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2021 of 15.5 pence per share	**90.0**	—
First interim dividend for the year ended 31 December 2021 of 34.1 pence per share	–	198.0
Second interim dividend for the year ended 31 December 2021 of 36.2 pence per share	–	210.0
	90.0	408.0

10. Intangible assets

	2022 £m	2021 £m
Cost		
At 1 January	**9.7**	7.0
Additions	**1.9**	2.7
Disposals	**(7.0)**	—
At 31 December	**4.6**	9.7
Amortisation		
At 1 January	**7.3**	4.5
Charge for the year	**1.2**	2.8
Disposals	**(7.0)**	—
At 31 December	**1.5**	7.3
Carrying amount		
At 31 December	**3.1**	**2.4**

11. Right-of-use assets - land and buildings

	2022 £m	2021 £m
Cost		
At 1 January	**87.8**	167.7
Additions	**1.9**	1.9
Modifications	**–**	27.8
Disposals[1]	**–**	(109.6)
At 31 December	**89.7**	87.8
Accumulated depreciation		
At 1 January	**29.0**	50.0
Depreciation charge for the year	**3.7**	4.7
Disposals[1]	**–**	(25.7)
At 31 December	**32.7**	29.0
Carrying amount		
At 31 December	**57.0**	58.8

Note

1 The 2021 disposal was due to the surrender of the Bromley lease

12. Investments - land and buildings

	Retail £m	Retail warehouse £m	Supermarkets £m	Office £m	Industrials £m	Hotels £m	Alternative sector £m	**Total £m**
At 1 January 2021	28.1	19.9	52.0	10.0	105.3	55.5	17.9	288.7
Fair value adjustments	(1.5)	2.7	4.9	(0.4)	28.9	2.9	0.3	37.8
Disposals	–	–	–	(9.6)	–	–	–	(9.6)
Capitalised expenditure	–	0.1	–	–	–	–	–	0.1
At 31 December 2021[1]	**26.6**	**22.7**	**56.9**	**–**	**134.2**	**58.4**	**18.2**	**317.0**
Fair value adjustments	**(1.6)**	**(1.6)**	**(5.8)**	**–**	**(22.3)**	**(8.1)**	**0.3**	**(39.1)**
Capitalised expenditure	**0.3**	**0.2**	**–**	**–**	**0.1**	**–**	**–**	**0.6**
At 31 December 2022[1]	**25.3**	**21.3**	**51.1**	**–**	**112.0**	**50.3**	**18.5**	**278.5**

Note

1 The cost included in the carrying value at 31 December 2022 is £216.4 million (2021: £215.8 million)

Land and buildings were purchased to provide an investment return over the long term in accordance with the Company's investment strategy. These properties are managed, on behalf of the Company, by a property services company.

The land and buildings are measured at fair value derived from valuation work carried out at the balance sheet date by independent property valuers.

The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of each property within the portfolio. This approach to valuation is consistent with the methodology used in the year ended 31 December 2021.

Lease agreements with tenants are drawn up in line with local practice and the Company has no exposure to leases that include contingent rents.

The following table provides a sensitivity analysis for +/- 5 basis points and +/- 50 basis points movement in tenants' rental income and impact on property valuation in sterling

		-50bp	-5bp	Baseline as at 31 December 2022	+5bp	+50bp
Equivalent yield	%	4.983	5.472	5.526	5.580	6.066
Value	£m	253.5	275.4	278.5	280.9	308.1

13. Shares in Group undertakings

	2022 £m	2021 £m
At 1 January and 31 December[1]	**11.5**	11.5

Note

1. The cost and net book value at 31 December 2022 is £11.5 million (2021 £11.5 million)

The Company's subsidiaries are detailed as follows:

Name of Group undertaking	Place of incorporation and operation	Type of ownership interest (share type)	Proportion of voting power held	Principal activity
Churchill Insurance Company Limited[1]	United Kingdom	Ordinary	100%	General insurance
Direct Line Insurance Limited[1,2]	United Kingdom	Ordinary	100%	Dormant
The National Insurance and Guarantee Corporation Limited[1,2]	United Kingdom	Ordinary	100%	Dormant

Notes

1. Registered office at Churchill Court, Westmoreland Road, Bromley, BR1 1DP
2. In accordance with the requirements under sections 394A and 448A of the Companies Act 2006 there is no requirement to audit a dormant company

14. Other financial investments

	2022 £m	2021 £m
Debt securities and other fixed income securities[1,2]	**3,245.7**	4,130.5
Other loans		
Infrastructure debt	**238.2**	250.8
Commercial real estate loans	**199.1**	200.8
Other loans	**1.9**	–
Total loans and receivables	**439.2**	451.6
Derivative financial instruments (note 15)	**31.2**	35.9
Other financial investments	**3,716.1**	4,618.0

Notes

1. The Company swaps a fixed interest rate for a floating rate of interest on its US dollar and Euro corporate debt securities by entering into interest rate derivatives. The hedged amount at 31 December 2022 was £401.8 million (31 December 2021 £1,005.6 million)
2. In debt securities and other fixed income securities there are £98.2 million (2021 £91.2 million) securities classified as HTM, the remainder are classified as AFS

15. Derivative financial instruments

	2022 £m	2021 £m
Derivative assets		
At fair value through the profit and loss account:		
Foreign exchange contracts (forwards)	**24.2**	27.8
Interest rate swaps	–	2.4
Designated as hedging instruments		
Interest rate swaps	**7.0**	5.7
Total	**31.2**	35.9
Derivative liabilities		
At fair value through the profit and loss account:		
Foreign exchange contracts (forwards)	**28.4**	19.1
Designated as hedging instruments		
Interest rate swaps	**1.2**	0.1
Total	**29.6**	19.2

16. Reinsurers' share of technical provisions

	2022 £m	2021 £m
Reinsurers' share of claims outstanding	**1,059.8**	1,145.3
Impairment provision	**(30.9)**	(35.7)
Total excluding reinsurers' unearned premium reserves	**1,028.9**	1,109.6
Provision for outstanding premiums	**55.6**	79.7
Total	**1,084.5**	1,189.3

Notes

1. Impairment provision relates to reinsurance debtors allowing for the risk that reinsurance assets may not be collected or where one or more reinsurers credit rating has been significantly downgraded and it may have difficulty in meeting its obligations. Of this amount a total of £0.1 million is past due (2021: £6.8 million).

Movements in reinsurance asset impairment provision

	2022 £m	2021 £m
At 1 January	**(35.7)**	(44.5)
Additional provision	**(2.1)**	(3.2)
Released to profit and loss account	**6.9**	12.0
At 31 December	**(30.9)**	(35.7)

17. Deferred acquisition costs

	2022 £m	2021 £m
At 1 January	**187.4**	173.0
Additions	**396.9**	401.8
Recognised in the profit and loss account	**(395.1)**	(387.4)
At 31 December	**189.2**	187.4

18. Called-up share capital

	2022 £m	2021 £m
Issued and fully paid equity shares		
580.8 million Ordinary Shares of £1 each	**580.8**	580.8
Share premium	**150.0**	150.0
Total	**730.8**	730.8

The Company is a member of the Direct Line Group headed by Direct Line Insurance Group plc of which the Company is a subsidiary

19. Other reserves

Movements in the AFS investments revaluation reserve

	AFS investments revaluation reserve £m	AFS reserve transferred[1] £m	Merger reserve[1] £m	Total £m
At 1 January 2021	85.4	0.5	(0.5)	85.4
Revaluation during the year - gross	(86.0)	–	–	(86.0)
Revaluation during the year - tax	15.2	–	–	15.2
Transfer of business - realised net gains on AFS investments - gross	–	(0.6)	0.6	–
Transfer of business - realised net gains on AFS investments - tax	–	0.1	(0.1)	–
Realised net loss - gross	(8.0)	–	–	(8.0)
Realised net loss - tax	2.0	–	–	2.0
At 31 December 2021	**8.6**	**–**	**–**	**8.6**
Revaluation during the year - gross	**(295.9)**	**–**	**–**	**(295.9)**
Revaluation during the year - tax	**73.6**	**–**	**–**	**73.6**
Realised net gain - gross	**24.9**	**–**	**–**	**24.9**
Realised net gain - tax	**(6.2)**	**–**	**–**	**(6.2)**
At 31 December 2022	**(195.0)**	**–**	**–**	**(195.0)**

Note

1 On 10 December 2011 due to the Part VII transfer, Churchill Insurance Company Limited, Direct Line Insurance Limited and The National Insurance and Guarantee Corporation Limited transferred their underlying businesses into the Company, with the exception of a small amount of business which remains in Churchill. The Company accounted for the transferred assets and liabilities using the carrying amounts of predecessor entities and in respect of AFS investments the Company inherited the AFS reserve at the point of the transfer. Movements in respect of the AFS reserve transferred in was recognised together with other reserve movements on AFS investments. The original merger reserve transferred in was reduced and transferred directly to retained earnings upon impairment, maturity or disposal of the underlying assets. The AFS reserve transferred and the merger reserve was reduced to £nil during 2021.

20. Subordinated liabilities

	2022 £m	2021 £m
Subordinated loan	**–**	255.3

The subordinated guaranteed loan from the Company's parent, Direct Line Insurance Group plc, was issued on 27 April 2012 at a fixed rate of 9.5%. On the same date, the Company also entered into a 10-year interest rate swap to exchange the fixed rate of interest for a floating rate of 3-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

On 28 February 2019 the Company's Board passed a resolution to repay £250 million of the subordinated loan and this was also approved by the DLIG Board. The repayment date was 7 March 2019. The remaining loan with a nominal value of £250 million had a redemption date of 27 April 2042, with an option to repay the loan in full on 27 April 2022 and at every interest payment date thereafter. There was also an option to wholly repay the loan when the DLIG subordinated notes were redeemed, repurchased or cancelled in whole.

During 2020 the Company identified that the hedge no longer met the criteria of hedge effectiveness under IAS 39 'Financial Instruments: Recognition and Measurement' and, under the rules of the standard, the accumulated hedging adjustment was amortised to the profit and loss account from the date of the last successful hedge effectiveness test over the remaining life of the subordinated debt using an effective interest rate calculation.

The loan was an unsecured, subordinated obligation of the Company. In the event of a winding-up or of bankruptcy, it was to be repaid only after the claims of all other senior creditors had been met. The remaining loan was repaid in full in April 2022 after the DLIG subordinated notes were redeemed on 27 April 2022. The interest rate swap hedging these notes expired in the same day

21. Claims outstanding

	2022 £m	2021 £m
Insurance liabilities	**3,632.7**	3,653.5

Gross claims outstanding

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,211.7	2,125.5	2,157.7	2,216.0	2,299.4	2,400.4	2,222.9	1,911.2	2,061.9	2,449.4	
One year later	(117.6)	20.8	(30.0)	(86.6)	(116.2)	(62.3)	(67.2)	(116.8)	(52.5)		
Two years later	(152.9)	(38.5)	(143.4)	(53.3)	(103.1)	(52.0)	(56.1)	(34.4)			
Three years later	(21.0)	(144.9)	(62.4)	(82.8)	(42.4)	(9.5)	(14.0)				
Four years later	(102.1)	(50.2)	(22.9)	(46.1)	(21.0)	(15.4)					
Five years later	(50.8)	(51.6)	(22.0)	(16.7)	(12.8)						
Six years later	(27.4)	(33.6)	(8.9)	(27.0)							
Seven years later	(14.0)	(6.6)	(9.3)								
Eight years later	(0.3)	(17.4)									
Nine years later	(3.0)										
Current estimate of cumulative claims	1,722.6	1,803.5	1,858.8	1,903.5	2,003.9	2,261.2	2,085.6	1,760.0	2,009.4	2,449.4	
Cumulative payments to date	(1,714.5)	(1,746.2)	(1,772.7)	(1,830.5)	(1,881.5)	(2,013.3)	(1,782.2)	(1,390.2)	(1,457.5)	(1,364.0)	
Gross liability recognised in balance sheet	**8.1**	**57.3**	**86.1**	**73.0**	**122.4**	**247.9**	**303.4**	**369.8**	**551.9**	**1,085.4**	**2,905.3**
2012 and prior											**641.4**
Claims handling provision											**86.0**
Total											**3,632.7**

Net claims outstanding

Accident year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of ultimate gross claims costs:											
At end of accident year	2,121.7	2,002.0	1,966.3	1,980.6	2,099.0	2,226.2	2,053.7	1,738.3	1,897.9	2,359.7	
One year later	(123.6)	(29.7)	(67.0)	(18.9)	(79.7)	(41.4)	(34.5)	(88.0)	(35.0)		
Two years later	(134.4)	(42.1)	(77.8)	(38.2)	(65.3)	(27.1)	(54.6)	(44.7)			
Three years later	(27.8)	(100.8)	(30.4)	(43.7)	(14.0)	(27.6)	(5.7)				
Four years later	(64.3)	(41.3)	(24.1)	(16.9)	(39.7)	(3.1)					
Five years later	(38.9)	(52.5)	(20.7)	(12.5)	(15.1)						
Six years later	(17.7)	(8.3)	(4.6)	(16.8)							
Seven years later	(10.6)	(7.8)	(7.4)								
Eight years later	0.3	(6.0)									
Nine years later	(2.7)										
Current estimate of cumulative claims	1,702.0	1,713.5	1,734.3	1,833.6	1,885.2	2,127.0	1,958.9	1,605.6	1,862.9	2,359.7	
Cumulative payments to date	(1,694.9)	(1,701.6)	(1,704.8)	(1,794.1)	(1,819.1)	(1,989.0)	(1,755.3)	(1,365.9)	(1,439.9)	(1,362.9)	
Net liability recognised in balance sheet	**7.1**	**11.9**	**29.5**	**39.5**	**66.1**	**138.0**	**203.6**	**239.7**	**423.0**	**996.8**	**2,155.2**
2012 and prior											**362.6**
Claims handling provision											**86.0**
Total											**2,603.8**

21. Claims outstanding continued

Movements in gross and reinsurance claims outstanding

	Gross £m	Reinsurance £m	Net £m
Claims reported	2,737.1	(822.7)	1,914.4
Incurred but not reported	774.7	(180.5)	594.2
Claims handling provision	77.9	–	77.9
At 1 January 2021	3,589.7	(1,003.2)	2,586.5
Cash paid for claims settled in the year	(1,949.0)	89.4	(1,859.6)
Increase/(decrease) in liabilities:			
Arising from current-year claims	2,242.5	(166.1)	2,076.4
Arising from prior-year claims	(229.7)	(29.7)	(259.4)
At 31 December 2021	3,653.5	(1,109.6)	2,543.9
Claims reported	2,815.2	(865.1)	1,950.1
Incurred but not reported	759.7	(244.5)	515.2
Claims handling provision	78.6	–	78.6
At 31 December 2021	3,653.5	(1,109.6)	2,543.9
Cash paid for claims settled in the year	**(2,393.7)**	**69.0**	**(2,324.7)**
Increase/(decrease) in liabilities.			
Arising from current-year claims	**2,638.0**	**(88.9)**	**2,549.1**
Arising from prior-year claims	**(265.1)**	**100.6**	**(164.5)**
At 31 December 2022	**3,632.7**	**(1,028.9)**	**2,603.8**
Claims reported	**2,921.2**	**(819.6)**	**2,101.6**
Incurred but not reported	**625.5**	**(209.3)**	**416.2**
Claims handling provision	**86.0**	**–**	**86.0**
At 31 December 2022	**3,632.7**	**(1,028.9)**	**2,603.8**

Analysis of outstanding PPO claims provisions on a discounted and an undiscounted basis

The Company settles some large bodily injury claims as PPOs rather than lump sum payments.

The table below analyses the outstanding PPO claims provisions on a discounted and an undiscounted basis at 31 December 2022 and 31 December 2021. These represent the total cost of PPOs rather than any costs in excess of purely Ogden-based settlements.

At 31 December	**Discounted 2022 £m**	**Undiscounted 2022 £m**	Discounted 2021 £m	Undiscounted 2021 £m
Gross claims				
Approved PPO claims provisions	**475.6**	**1,307.2**	537.9	1,179.3
Anticipated PPOs	**135.8**	**301.3**	193.4	408.7
Total gross	**611.4**	**1,608.5**	731.3	1,588.0
Reinsurance				
Approved PPO claims provisions	**(251.9)**	**(718.7)**	(294.2)	(660.3)
Anticipated PPOs	**(91.7)**	**(232.5)**	(142.1)	(313.7)
Total reinsurance	**(343.6)**	**(951.2)**	(436.3)	(974.0)
Net of reinsurance				
Approved PPO claims provisions	**223.7**	**588.5**	243.7	519.0
Anticipated PPOs	**44.1**	**68.8**	51.3	95.0
Total net	**267.8**	**657.3**	295.0	614.0

The provisions for PPOs have been categorised as either claims which have already been determined by the courts as PPOs (approved PPO claims provisions) or those expected to settle as PPOs in the future (anticipated PPOs). The Company has estimated the likelihood of large bodily injury claims settling as PPOs. The anticipated PPOs in the table above are based on historically observed propensities adjusted for the assumed Ogden discount rate.

In the majority of cases, the inflation agreed in the settlement is the Annual Survey of Hours and Earnings SOC 6115 inflation published by the Office for National Statistics, for which the long-term cashflow-weighted average rate is assumed to be 4.2% (2021: 3.5%). The Company has estimated a cashflow-weighted average rate of interest used for the calculation of present values as 5.1% (2021: 3.5%), which results in a real discount rate of 0.9% (2021: 0%). The Company will continue to review the inflation and discount rates used to calculate these insurance reserves.

Details of sensitivity analysis to the discount rate applied to PPO claims are shown in note 3.3.1.

22. Provision for unearned premiums

Movement in unearned premium reserve

	Gross £m	Reinsurance £m	Net £m
At 1 January 2021	1,497.1	(103.9)	1,393.2
Written in the period	3,171.6	(186.4)	2,985.2
Earned in the period	(3,168.0)	210.6	(2,957.4)
At 31 December 2021	1,500.7	(79.7)	1,421.0
Written in the period	**3,095.5**	**(141.6)**	**2,953.9**
Earned in the period	**(3,132.9)**	**165.7**	**(2,967.2)**
At 31 December 2022	**1,463.3**	**(55.6)**	**1,407.7**

23. Provisions for other risks

	2022 £m	2021 £m
Other provisions	**54.1**	50.0
Total	**54.1**	50.0

Movements during the year in other provisions are as follows:

	Regulatory levies £m	Other £m	Total £m
At 1 January 2022	**48.2**	**1.8**	**50.0**
Additional provision	**76.6**	**–**	**76.6**
Utilisation of provision	**(70.7)**	**(1.8)**	**(72.5)**
At 31 December 2022	**54.1**	**–**	**54.1**

The expected timing of any resulting outflows falls within twelve months of the balance sheet date. All regulatory levies relate to insurance levies, predominantly the Financial Services Compensation Scheme and the Motor Insurance Bureau. Other provisions relate to premium refunds and a lease restructure.

24. Other creditors including taxation and social security

	2022 £m	2021 £m
Other creditors[1]	**93.9**	72.3
Other taxes	**91.1**	91.2
Total	**185.0**	163.5

Note

1. Other creditors primarily consists of balances relating to insurance policies that have been accepted but where the Group is yet to go on risk, balances relating to unearned policyholder instalment interest income and other amounts due to policyholders.

25. Leases

Operating lease commitments where the Company is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants.

	2022 £m	2021 £m
Within one year	**13.3**	12.8
In the second to fifth year inclusive	**41.6**	37.4
After five years	**59.4**	69.2
Total[1]	**114.3**	119.4

Note

1. At year ended 31 December 2022 £114.2 million of the total operating lease commitments where the Company is the lessor relates to the lease of land and buildings held for investment detailed in note 12 (2021 £114.4 million).

25. Leases continued

Other lease disclosures

The following table analyses the amounts that have been included in the profit and loss account for leases.

	2022 £m	2021 £m
Depreciation of right-of-use assets	**3.7**	4.7
Loss on termination of property lease	**–**	*83.9*
Interest on lease liabilities	**2.6**	2.7
Total	**6.3**	91.3

Notes.

1 Total cash outflows in respect of leases was £5 7 million (2021 £97 3 million)

2 The Company has no low value or short-term leases

26. Fair value

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For disclosure purposes, fair value measurements are classified as level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.
- Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include AFS debt security assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments.
- Level 3 fair value measurements used for investment properties, HTM debt securities, infrastructure debt, and commercial real estate loans, are those derived from a valuation technique that includes inputs for the asset that are unobservable. HTM debt securities are private placed securities which do not trade on active markets, these are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium. Infrastructure debt and commercial real estate are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents

Comparison of carrying value to fair value of financial instruments and assets carried at fair value

The following table compares the carrying value and the fair value of financial instruments and other assets where the Company discloses a fair value:

At 31 December 2022	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair Value £m
Assets held at fair value:					
Land and buildings (note 12)	**278.5**	–	–	278 5	**278.5**
Derivative financial instruments (note 15)	**31.2**	–	31.2	–	**31.2**
Debt securities and other fixed income securities[1] (note 14)	**3,147.5**	511.2	2,636 3	–	**3,147.5**
Other financial assets:					
Debt securities and other fixed income securities[1] (note 14)	**98.2**	–	28.6	61 0	**89.6**
Other loans (note 14)	**439.2**	–	–	435.7	**435.7**
Total assets	**3,994.6**	**511.2**	**2,696.1**	**775.2**	**3,982.5**
Liabilities held at fair value:					
Derivative financial instruments (note 15)	**29.6**	–	29.6	–	**29.6**
Total liabilities	**29.6**	**–**	**29.6**	**–**	**29.6**

Notes to the financial statements

For the year ended 31 December 2022

At 31 December 2021	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m	Fair Value £m
Assets held at fair value:					
Land and buildings (note 12)	317.0	—	—	317.0	317.0
Derivative financial instruments (note 15)	35.9	—	35.9	—	35.9
Debt securities and other fixed income securities[1] (note 14)	4,039.3	35.6	4,003.7	—	4,039.3
Other financial assets:					
Debt securities and other fixed income securities[1] (note 14)	91.2	—	24.3	69.1	93.4
Other loans (note 14)	451.6	—	—	456.1	456.1
Total assets	4,935.0	35.6	4,063.9	842.2	4,941.7
Liabilities held at fair value:					
Derivative financial instruments (note 15)	19.2	—	19.2	—	19.2
Total liabilities	19.2	—	19.2	—	19.2

Note:
1. Debt securities and other fixed income securities have been split above into Assets held at fair value and Other financial assets. The total of these as at 31 December 2022 is £3,745.7 million (31 December 2021 £4,130.5 million).

Differences arise between carrying value and fair value where the measurement basis of the asset or liability is not fair value (for example; assets and liabilities carried at amortised cost). Fair values of the following assets and liabilities approximate their carrying values:

- other debtors;
- cash at bank and in hand;
- amounts owed to credit institutions; and
- other creditors.

The movements in assets held at fair value and classified as Level 3 in the fair value hierarchy are all within land and buildings and are analysed in note 12, along with further details on the Company's valuation approach. A summary of realised and unrealised gains or losses in relation to land and buildings at fair value are presented in note 6.

There were no changes in the categorisation of assets between levels 1, 2 and 3 for assets and liabilities held by the Company since 31 December 2021. During 2021, there was one HTM debt security with fair value of £10.7 million transferred from level 3 to level 2 due to market-observable valuation inputs.

The following table shows the unobservable inputs used by the Company in the fair value measurement of its land and buildings:

31 December 2022	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property	278.5	Income capitalisation	Equivalent yield	4.23% - 7.61% (average 5.62%)
			Estimated rental value per square foot	£6.50 - £32.92 (average £13.59)

27. Post balance sheet events

The Company has reviewed the fee for membership for its panel of repair companies and is increasing the fee from 1 January 2023. Some related companies within the Group are members of the repair panel.

On 26 January 2023, the Company announced that it had entered into strategic reinsurance agreements, that together comprise a 3-year structured 10% quota share arrangement. The contracts incept with effect from 1 January 2023.

On 1 March 2023, the Company entered into arrangements relating to Motability Operations and the motor insurance needs of approximately 600,000 of its customers.