

U K Insurance Limited**01179980****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.

U K Insurance Limited**01179980****Directors' report****For the year ended 31 December 2022****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