03104671

St Andrew's Insurance plc

Annual Report and Accounts
2022

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

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Company Registration Number

03104671

STRATEGIC REPORT

The Directors present their strategic report on St Andrew's Insurance plc (the 'Company') for the year ended 31 December 2022.

The Company is a subsidiary of Lloyds Bank General Insurance Holdings Limited and part of the Insurance, Pensions and Investments (IP&I) Division of Lloyds Banking Group, focusing on providing general insurance to meet our customers' needs.

Our strategy is to help our customers by:

- Delivering a leading customer experience
- Digitising Lloyds Banking Group and its subsidiaries (the 'Group')
- Maximising the Group's capabilities
- Transforming ways of working

As part of the Insurance strategy the Company is closed to new business but has continued to focus on servicing existing renewal customers for home and creditor insurance during the year. Accordingly, the Company is focused on ensuring policyholder obligations are met, while at the same time ensuring the Company is managed to maximise capital efficiency and returns for its shareholder and IP&I Division. To support this, the Company is focused on the following key performance indicators:

- Net insurance premiums
- Claims and loss adjustment expenses
- Combined ratio
- Solvency II Regulatory capital
- Liquidity position

Principal activities

The principal activity of the Company is to underwrite renewal home insurance and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland brands and which were sold through the Lloyds Banking Group distribution channels and other corporate partnerships.

Result for the Year

The result for the year ended 31 December 2022 is a profit after tax of £16 million (2021: £9 million).

The increase in profit is driven by a reduction in one off expenses not incurred in 2022. This is partially offset by a reduction in premium income and claims expenses as a result of the continued run-off of the business. Run-off of the home business was accelerated towards the end of 2021 and into 2022 following the sale of the legacy home products customer book of business to a fellow subsidiary company, Lloyds Bank General Insurance Limited.

IFRS 17 'Insurance Contracts'

IFRS 17 ‘Insurance Contracts’ replaces IFRS 4 ‘Insurance Contracts’ and is effective for annual periods beginning on or after 1 January 2023. The Company’s initial application date was 1 January 2023 and its transition date was 1 January 2022. Further detail can be found in note 28.

Under IFRS 17, there is the option to follow a simplified approach rather than the general model for short duration contracts (of 12 months or less). The company’s insurance contract portfolio comprises materially home and creditor insurance, which is underwritten for duration of 12 months or less (being annual or monthly contracts). Accordingly, a simplified approach was taken and the Premium Allocation Approach has been applied.

The opening balance sheet for 1 January 2022 has been completed and the impact of transition to IFRS 17 is an increase in the Company’s total equity of approximately £3 million, largely driven by changes to deferred acquisition costs value under IFRS 17. At 1 January 2022, the value of the liability for remaining coverage of all insurance contracts issued and reinsurance contracts held was approximately £3 million (net of reinsurance) and deferred acquisition costs were approximately £1 million.

Income statement impact

Whilst IFRS 17 does not change the total profit recognised over the life of an insurance contract, it does change both the phasing of profit recognition and the amounts recognised within individual income statement line items. The structure of the primary statements will change and IFRS17-related line items will be introduced to capture all movements and positions in line with the standard.

The Company continues to refine and finalise the new accounting processes and models and has not, therefore, presented the impact of IFRS 17 for the year ended 31 December 2022. Further work will be undertaken during 2023 to finalise the impact of IFRS 17 on the Company’s income statement for the year ended 31 December 2022 and on its balance sheet at 31 December 2022.

STRATEGIC REPORT (continued)

FCA GI Pricing Practices Regulations

In September 2020 the FCA released its General Insurance Pricing Practices Final Report which included proposals aimed at tackling the industry pricing approach which it determined does not work well for some customers. The key proposals were that firms should offer renewal prices no higher than the equivalent new business price and a focus on ensuring fair value for consumers. The Company made the required changes to comply with the FCA's Pricing Practice Regulations, which were effective from 1 January 2022.

Economic Environment

After starting 2022 with economic activity constrained by COVID-19, UK GDP recovered almost to its pre-pandemic level by mid-year. During the second half of the year, however, Russia’s invasion of Ukraine began to have a large impact on global and UK economies. Higher energy and supply chain costs, and increasing food prices, contributed to pushing UK CPI inflation to a 41 year high of 11 per cent during the fourth quarter. These factors have all contributed to increasing the cost of living which impacts the Company and its customers, as well as impacting on the cost of materials and subsequent cost of claims for the Company. In line with Lloyds Banking Group's purpose of Helping Britain Prosper and a clear customer focus, Lloyds Banking Group are providing support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business.

Climate Change

The Company is a subsidiary of Lloyds Banking Group plc. Lloyds Banking Group (LBG) is committed to supporting the aims of the 2015 Paris Agreement in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

The Company is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations, and aligned to best practice outlined by the Climate Financial Risk Forum (CFRF) has published a TCFD aligned report at the intermediate parent entity level intermediate Scottish Widows Group Limited (SWG).

The full SWG TCFD report is available on the Scottish Widows website at www.scottishwidows.co.uk/climatereport.

Key performance indicators

Net insurance premiums

Net insurance premiums decreased by 55 per cent to £46 million in 2022 (2021: £100 million). The decrease reflects the run-off of both the home and creditor books.

Claims and loss adjustment costs

Claims and loss adjustment costs decreased by 69 per cent to £14 million in 2022 (2021: £43 million). The decrease in current year claims and loss adjustment costs is due to the run-off of both the home and creditor books.

Combined ratio

The Company’s combined ratio has decreased to 62 per cent (2021: 109 per cent). This is predominately driven by a decrease in expenses and claims and loss adjustment costs during the year due to the run-off of both the home and creditor books.

Solvency II

During the year, the Company has delivered Solvency II reporting including full annual quantitative reporting as at 31 December 2021, as well as the narrative reporting required by Solvency II. The Company has a waiver from the Prudential Regulation Authority (PRA) exempting it from preparing a solo Solvency and Financial Condition Report (SFCR). Instead, in April 2022, the Company reported publicly through a Group SFCR for Scottish Widows Group Limited. The next SFCR will be published in April 2023, in relation to the year ending 31 December 2022.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the regulatory surplus of the Company in excess of capital requirements is £125 million (2021: £50 million).

The Solvency II ratio for the Company is 513 per cent (2021: 178 per cent) reflecting the net profit for the period less dividends paid. Further information on the capital position of the Company is given in note 25.

As agreed with the PRA, the wider Insurance, Pensions & Investments Division submits a single Own Risk and Solvency Assessment (ORSA) each year which covers the group headed by Scottish Widows Group Limited. The assessment of own risks and solvency needs of the Company is therefore covered by that assessment.

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remain within the approved risk appetite. As at 31 December 2022, the Company had liquidity coverage of 262 per cent (2021: 147 per cent) over and above the liquidity required under stressed conditions.

STRATEGIC REPORT (continued)

Key performance indicators (continued)

Other Sources where KPIs are presented

The Company also forms part of Lloyds Banking Group's Insurance, Pensions and Investments (IP&I) Division. The development, performance and position of the IP&I Division are presented within Lloyds Banking Group's annual report, which does not form part of this report.

The Directors consider that the above are the key performance indicators which are appropriate to the principal activity of the Company. These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information contained in the Company's Solvency II reporting on capital resources and requirements and regular actuarial reports, in conjunction with the information presented in the financial statements as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

Review of the business

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Board for due consideration and approval.

Investment strategy

As part of its efficient balance sheet management, the Company is focused on low risk, very short duration assets to match its liabilities.

Further details on the credit risk and fair value measurement of these assets can be found in note 25.

Back book migration initiative

As part of the General Insurance business unit, the Company supports the strategy of delivering a leading customer experience. The General Insurance business unit has invested in a new proposition that will offer a quick and intuitive sales journey for customers purchasing home insurance across certain channels. The new proposition also offers a simplified sales journey enabling customers to gain a better understanding of the cover and limits available to ensure the product they purchase truly meets their needs.

The new proposition is only being offered by fellow subsidiary company, Lloyds Bank General Insurance Ltd (LBGI) and as a result all customers with a home product underwritten by the Company, as the underwriter of legacy Halifax and Bank of Scotland products, were offered the new proposition product underwritten by LBGI upon renewal during 2021 and 2022.

During the prior year the Company received £25 million from LBGI as fair value consideration for this book of business.

Following the back book migration initiative the Company will continue to serve its existing creditor insurance renewal customers as well as manage existing home claims or home claims from business written prior to renewal.

Outlook

The Directors consider that the Company's principal activities will continue to be unchanged in the foreseeable future, although activities related to the home insurance book of business have rapidly declined following completion of the back book migration initiative as outlined above.

STRATEGIC REPORT (continued)

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 25, as shown by the note reference.

Financial risks

Principal Risk	Note reference	Description
Market risk	25(a)	Market risk is defined as the risk that the Company's capital or earnings profile is affected by adverse market rates, in particular equity, credit default spreads, interest rates and inflation in Insurance business. External rates are outwith the Company's control therefore mitigation is via having sufficient financial reserves to cover reduced earnings.
Insurance underwriting risk	25(b)	Insurance underwriting risk is defined as the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour and in expense costs, leading to reductions in earnings and/or value. In order to mitigate insurance underwriting risk, the Company uses underwriting, catastrophe reinsurance, flood reinsurance, pricing-to-risk, claims and expense management, product design, policy wording, and demographics to accurately assess risk.
Credit risk	25(c)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Company is subject to credit risk through a variety of counterparties through invested assets, cash in liquidity funds, bank accounts and reinsurance. Credit risk is mitigated via the risk transfer policy and the investment policy which ensure exposures are appropriately monitored and action taken where necessary.
Capital risk	25(d)	Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Company. The Company is regulated by the PRA and the FCA. The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated Company in addition to their insurance liabilities. Capital risk is managed via the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.
Liquidity risk	25(e)	Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. The Company is exposed to liquidity risk from payments to policyholders and non- policyholder related activity. Liquidity risk is mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

Non-financial risks

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, security and sourcing. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.
Data risk	Data risk is defined as the risk of failing to effectively govern, manage and control data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value and mistrust. It is present in all aspects of the business where data is processed, both within the company and by third parties. This risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, records management, data privacy and ethics. Data risks and controls are monitored and governed in line with an embedded risk management framework, which involves identification, measurement, management, monitoring and reporting.
Climate risk	Climate risk is defined as the risk that the Company experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero, or as a result of the Company’s responses to tackling climate change. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

During the ordinary course of business the Company is also subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Balance Sheet date as set out in note 19.

In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Section 172(1) Statement and Statement of Engagement with Other Stakeholders

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of key stakeholders (this includes customers, shareholders, communities and environment, regulators, and suppliers), is central to the Company's strategy and informs key aspects of Board decision making. Stakeholder engagement is embedded within the Board's decision making and can be seen in the range of activities across key stakeholder groups.

In accordance with the Companies Act 2006 (the 'Act') the Directors of the Board provide this Statement, describing how they have had regard to the matters set out in Section 172(1) of the Act when fulfilling their duty to promote the success of the Company, under Section 172 of the Act.

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc, and as such, follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

How the Board has discharged its Section 172 duties

The Directors, on appointment and during their induction to the Board, are briefed on their statutory director duties and the standards required of subsidiary boards within Lloyds Banking Group. The Board undertakes an annual review of its governance arrangements, in particular of the matters it has reserved for its own determination and those for which it has delegated authority to management. This arrangement is designed to enable the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group's strategic aims and prudent and effective controls.

Stakeholder engagement is embedded in the Board's delegation of authority to the Chief Executive Scottish Widows & Group Director Insurance (Chief Executive) for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. The Chief Executive discharges their responsibility for the day-to-day management of the Company's business by delegating key areas of their authority to members of management and with the assistance of the Executive Committee (the Insurance, Pensions & Investments Executive Committee (IP&IExCo)) which enables them to make informed decisions about the operations of the Company's business.

The Chief Executive and management both provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put before the Board.

Further details of how the Board considers each of the specific matters set out in Section 172, along with specific examples of how these considerations have influenced decisions taken by the Board, are set out in pages 8 to 11 which serves as the Company's Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Consumers

The Board's understanding of customers' needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach are core to Board decision-making. The Company serves a wide variety of different customers and acts in a way designed to meet their diverse needs in a timely and efficient way through its range of products and associated customer service.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Consumers (continued)

The Board reviews the performance of its customer propositions within a cycle of in-depth reviews and debates matters particular to customers within each product grouping. Board review, discussion and challenge in 2022 has covered;

- product and investment performance;
- the quality of customer service;
- product evolution to meet changing client needs;
- digital landscape; and
- the effectiveness of various customer engagement channels to do business with the Company

During 2022 the Board welcomed that management had extended home insurance for existing customers to cover accepting a Ukrainian refugee into their homes. The Board also recognised customer impacts from the cost of living crisis and monitored customer behaviours to inform how best to support customers.

The Board, supported where appropriate by various committees challenges management from the perspective of the customer.

The Board's Risk Oversight Committee (ROC) monitors the operational performance of customer services. The ROC reviews detailed customer-related risk matters and scrutinises risk performance (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements could be made. In 2022 ROC also held an in depth review of the impacts of the cost of living crisis.

Consumer Duty

During the year, the Board discussed its key role in overseeing the Company’s implementation of the Financial Conduct Authority’s (FCA) new Consumer Duty principle from 2023. This will strengthen the Company’s focus on the delivery of good outcomes for customers, ensuring customers receive information they can understand, products and services that meet their needs and offer fair value, and ensure customers receive the support they need.

Delivering Value for Customers

The Board of the Company recognises the importance of understanding its performance in supporting customers, including how the Company performs relative to its peers. Regular Board updates from management cover a range of relevant internal and external sources. Together these provide important insight that informs Board decision-making.

Technology

The Board has taken steps to make sure the Company continues to build on its responses to customer demand for digitised customer journeys and has continued its programme of transforming customer experience through migrating customer policies to modern platforms. Whilst Digital transformation has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to get in touch with customer service staff over the phone, via letter or through email. The Board recognises the importance of the Company continuing to offer a range of engagement channels to suit customers and improve these services in parallel.

Helping Britain Prosper

Early in 2022, Lloyds Banking Group launched its next chapter of Helping Britain Prosper. It recognised the need to play a role in communities, to support people from every background and help solve the biggest challenges faced by society to implement profitable solutions that help both people and the planet. Those two big trends of inclusion and sustainability will significantly dominate the next decade and Lloyds Banking Group, of which the Company forms a part, wishes to use its presence and scale to be a positive force in shaping the role played by finance.

Lloyds Banking Group continues to invest significantly in the development of its Insurance, Pensions & Investment business, of which the Company forms part, with the aim of becoming Britain’s preferred financial partner for pensions and financial planning, helping to rebuild households’ financial health and wellbeing and meeting more of Lloyds Banking Group’s customers’ financial needs, including making it easy for customers to understand their Home and Protection needs and plan for the unexpected events in life. Further information on Lloyds Banking Group’s initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2022, available on the Lloyds Banking Group website.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc and, as such, the Board ensures that the strategy, priorities, processes, and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2022.

The relationship between the Board of the Company and the Board of Lloyds Banking Group is supported by at least one senior leader from Lloyds Banking Group serving as a Non-executive Director on the Insurance Board throughout 2022. An Independent Non-executive Director of Lloyds Banking Group plc was also welcomed as an attendee at one of the meetings of the Board during 2022. The Board of the Company also welcomed the Chief Executive Officer of Lloyds Banking Group joining one of its meetings during 2022, for a roundtable discussion of Group Strategy and the role of Insurance, Pensions & Investments within it. During 2022 a meeting of the Directors of the Company was held with the directors of fellow subsidiary company Lloyds Bank Commercial Markets plc and the Board of the ultimate shareholder, Lloyds Banking Group plc.

The views and interests of the Company's shareholders are key considerations when the Board determines the level of dividend payments as well as when approving the Company's business strategy and long-term objectives.

Communities and the environment

The Board's consideration of environmental matters is supported by its Sustainability Committee, the majority of whose members are independent non-executive Directors. The primary purpose of this Committee is to review and recommend to the Board the Environmental, Social and Governance (ESG) Strategy of the Company in alignment with Insurance Pensions & Investments business with which the Company is a part of and Lloyds Banking Group's overarching purpose of Helping Britain Prosper. The Committee has also been responsible for overseeing the publication of the Scottish Widows Task Force on Climate Related Financial Disclosures (TCFD) Report and related regulatory expectations on disclosures. The TCFD Report can be found on the Scottish Widows website.

The Chair of the Sustainability Committee reports regularly to the Board on key matters relating to the Insurance, Pensions & Investment business sustainability strategy and activities relevant to the Company.

Climate risk

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds are matters reserved to the Board. The Sustainability Committee on behalf of the Board considers the Company's management of climate risk and relevant public disclosures, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business. Scottish Widows, a parent company, undertakes a bi-annual review of the external commitments and monitors external emerging risks across ESG (including greenwashing risk), to identify opportunities for the Company to enhance the controls it has in place to mitigate ESG risks and evolve processes to respond to change required by legal risks and marketing standards.

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board considers it important that great emphasis is placed on ensuring its membership reflects the diversity of modern Britain and is inclusive. On gender diversity, the Board has a specific objective to maintain membership of at least 33 per cent female Board members. At 31 December 2022, the Board's membership consisted of 33 per cent female members. The Board also meets the objectives of the Parker review to have at least one Black, Asian or Minority Ethnic Board member. The Company also supports the Lloyds Banking Group high-level approach to diversity in senior management roles, which is governed in greater detail through Lloyds Banking Group policies.

Regulators

The Board and the Company maintain strong, open, and transparent relationships with regulators and relevant government authorities. Liaison with regulators and the Government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group and the Company's strategic aims align with the requirement of these important stakeholders. In June and September 2022 respectively the Board welcomed representatives from the Financial Conduct Authority and Prudential Regulation Authority at one of its meetings to discuss key priorities. In addition, individual directors have in the ordinary course of business continuing discussions with regulators on various matters within the regulatory agenda. Regulatory engagement provides a view of key areas of regulatory focus and the Board monitors progress made on addressing regulatory actions.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Suppliers

As part of Lloyds Banking Group, the Company has entered into a number of strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the Company relies on intra-group supplier arrangements for certain services. The Board recognises the importance of overseeing these relationships, which are integral to the Company's future success.

An advantage of being part of a larger group means there are robust processes in place to monitor and review costs with third parties who provide services to the Company. The outsourced business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all the Company's customers.

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & Supply Chain Management Policy applies to all its business units, divisions and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for the application of that policy in a way that is appropriate for the Company. This ensures the most significant supplier contracts receive approval of the Board, including those which are key in progressing strategic priorities. The framework also ensures appropriate management oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility, which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Lloyds Banking Group remains committed to collaborating with suppliers to tackle climate change and ensure it is embedded within the strategy and governance of its organisations. Reducing suppliers' emissions is a key component of its sustainability strategy. This year saw the launch of the Lloyds Banking Group Emerald Standard which suppliers are asked to work towards to help drive progress towards a lower carbon future.

Modern slavery

The Responsible Business Committee of the Board of Lloyds Banking Group as part of its oversight of its performance, including that of the Company, as a Responsible Business, governs Lloyds Banking Group's approach to business ethics and modern slavery.

On a day-to-day basis, management of and engagement on modern slavery and human rights is guided by the Modern Slavery and Human Rights Working Group led by the Social Sustainability Manager, which meets bi-monthly to assess the embedding of human rights within the Lloyds Banking Group's operations.

Lloyds Banking Group's Modern Slavery and Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company, which is required to publish an annual statement. This statement sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains.

Maintaining a reputation for high standards of business conduct

The Board supports the Chief Executive to ensure a culture of customer focus (including treating customers fairly), risk awareness and ethical behaviours. As part of the Board's oversight of this, the Board where necessary will seek assurance that management corrective action has been taken to ensure that policy and behaviours are aligned to the purpose, value, and strategy of the wider Insurance business.

On behalf of the Board of Directors

J C S Hillman

Director

30 March 2023

DIRECTORS' REPORT

The Directors present the audited financial statements of the Company. The Company is a limited Company, domiciled and incorporated in England and Wales.

Principal activities

The principal activity of the Company is to underwrite General Insurance, including home and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland brands and which were sold through the Lloyds Banking Group distribution channels and other corporate partnerships.

Results for the year

The result for the year ended 31 December 2022 is a profit after tax of £16 million (2021: £9 million).

The increase in profit is driven by a reduction in one off expenses not incurred in 2022, This is partially offset by a reduction in premium income and claims expenses as a result of the continued run-off of the business. Run-off of the home business was accelerated towards the end of 2021 and into 2022 following the sale of the legacy home products customer book of business to a fellow subsidiary company, Lloyds Bank General Insurance Limited.

During the year, an interim dividend of £25 million was paid on the ordinary shares in respect of 2022 (2021: £25 million).

Post balance sheet events

Further information on post balance sheet events is set out in note 29.

Directors

The names of the current Directors are listed on page 3. Changes in Directorships during the year and since the end of the year are as follows:

D L Davis	(Appointed 18 March 2022)
J S Wheway	(Appointed 1 August 2022)
J E M Curtis	(Resigned 7 October 2022)

Particulars of the Directors' emoluments are set out in note 26.

Directors' indemnities

Lloyds Banking Group plc has granted deeds of indemnity by deed poll and by way of entering into individual deeds, which for the purposes of the Companies Act 2006 constitute 'qualifying third-party indemnity provisions', to the directors of its subsidiary companies, including those of the Company. Such deeds were in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Directors who join the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors' and Officers' Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are 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 Company's auditors are aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

Future developments

Future developments are detailed within the Strategic Report and also in note 28.

The Directors have been updated on the Company's IFRS 17 implementation programme throughout 2022 and in prior years and held sessions dedicated to IFRS 17 in 2022. These sessions included discussions of the financial impacts, which included the expected adjustment to the Company's opening equity at 1 January 2022 and the effect that IFRS 17 will have on the Company's underlying profit. The Directors also discussed the Company's control framework in relation to both the transition and the business as usual processes to be adopted in the future.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in note 25, and additionally have considered projections for the Company's capital and funding position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

DIRECTORS' REPORT (continued)

Financial risk management

Disclosures relating to financial risk management are included in note 25 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

Information incorporated by reference

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Requirement	Content	Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of other stakeholder engagement	Strategic report

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

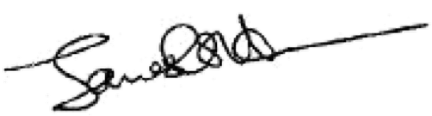
Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

– the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company

– the Company Strategic Report on pages 4 to 11, and the Directors' Report on pages 12 to 13 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

The Directors have also separately reviewed and approved the Strategic Report.

On behalf of the Board of Directors



J C S Hillman

Director

30 March 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of St Andrew's Insurance Plc (the 'company'):

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of cash flows
- the statement of changes in equity;
- the notes to the financial statements 1 to 29, except the information on regulatory capital marked as "unaudited" in note 25(d).

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

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's') 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 matter (KAM) that we identified in the current year was: • Valuation of insurance liabilities Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £4.6 million (2021: £4.8 million) which was determined on the basis of net assets.
Scoping	The audit scope is determined to provide sufficient coverage for all the material financial statement line items. As part of our audit, we determined materiality and assessed the risk of material misstatement in the financial statements.
Significant changes in our approach	In the prior year, the KAM on valuation of insurance liabilities focused specifically on the liability and subsidence perils within the Household book. In the current year, our reassessment concluded that the opportunity for management override or fraud lies specifically in the methodology and key assumptions employed when valuing the insurance reserves relating to the subsidence and Escape of Water (EoW) perils within the Household book.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

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:

- evaluating management's judgement paper, identifying the assumptions applied in the going concern assessment and testing the mechanical accuracy of the underlying forecast;
- inspecting the Scottish Widows Group ORSA (Own Risk and Solvency Assessment) of which the company is a subsidiary, and its results are included in group ORSA, to support our understanding of the key risks faced by the company's ability to continue as a going concern, and the longer-term viability of the company;
- assessing the historical accuracy of forecasts prepared by management;
- assessing the consistency of the forecast assumptions applied in the going concern assessment across other forecasts used; and
- evaluating the disclosures and performing sensitivity analysis in relation to going concern to assess their consistency with our understanding of the forecast performance and position.

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	
Key audit matter description	The general insurance reserves are the largest single area of judgement within the company's financial statements, giving rise to a fraud risk. In the current year, we identified a key audit matter within the subsidence and escape of water ('EoW') perils within the Household book. There is a significant level of judgement applied in the methodology and key assumptions employed when valuing the insurance reserves relating to subsidence and EoW perils. In particular, the risk around EoW peril has increased in the current period due to increased judgement over inflation uncertainty and the significance of the freeze event which occurred during Q4 2022. The total insurance liabilities is £36 million (2021: £58 million) net of reinsurance and excluding unearned premium. Both perils are quantitatively significant, driving a large proportion of the overall account balance. In addition, subsidence is a long-tailed risk relative to other components of the book; whereas EoW requires increased judgement for recent claims and inflation experience. Refer to Note 2 'Critical accounting judgements and key sources of estimation uncertainty'; Note 1(o) 'Accounting Policies'; and Note 17 'Insurance Contracts'.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

How the scope of our audit responded to the key audit matter	Our audit work to challenge the actuarial methodologies and models used by management in estimating the insurance liabilities included the following procedures: • gaining an understanding of relevant controls in the process of estimating the reserves. Together with our actuarial specialists, we have performed the following procedures: • calculated an independent projection of the subsidence and escape of water perils within the Household book; • assessed the reasonableness of any difference noted between our independent projection and management's results; • tested the reconciliation of paid and incurred claims development data to the policy administration system and general ledger; and • evaluated paid, incurred and outstanding case reserves by checking correspondences and policy documents included in the policyholders' files, where this data was used in reserving.
Key observations	Overall, we consider that the methodology applied, and significant assumptions used in the valuation of insurance liabilities for subsidence and escape of water perils, are reasonable.

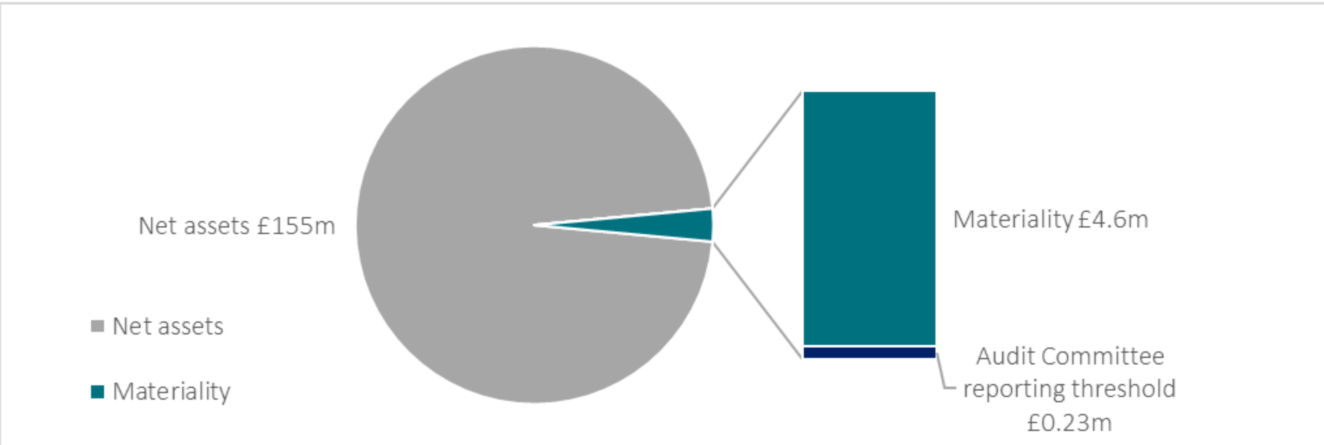
6. Our application of materiality

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:

Materiality	£4.6 million (2021: £4.8 million)
Basis for determining materiality	3% of net assets (2021: 3% of net assets)
Rationale for the benchmark applied	Net assets has been determined as the most appropriate benchmark due to the fact that it is a key metric of interest to the users of the financial statements, demonstrating the company's financial stability and solvency.



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 65% of materiality for the 2022 audit (2021: 60%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment and the fact that we were not able to rely on key controls for some business processes;

b. the low volume of corrected and uncorrected misstatements in the previous audit;

c. the stability of senior management and oversight structures; and

d. the fact that the company operates in a highly regulated industry.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

6.3. Error reporting threshold

We agreed with the Insurance Audit Committee that we would report to the Committee all audit differences in excess of £0.23 million (2021: £0.24 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Insurance 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

Our audit scope has been based on the materiality of each element of the statement of comprehensive income and the statement of financial position, taking into account both qualitative and quantitative factors in our assessment. Audit work to respond to the risks of material misstatement was performed by the audit engagement team.

7.2. Our consideration of the control environment

Our internal controls testing approach was informed by our scoping and risk assessment activities. We have assessed the entity's end-to-end financial reporting processes supporting all in-scope financial statement balances and identified relevant controls to test for these balances. This included the testing of general IT controls, process level controls and entity level controls.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the company's operations and subsequent impact on its financial statements. The company sets out its assessment of the potential impact on page 5 in the annual report and financial statements.

Our audit work involved:

- evaluating the completeness of the physical and transition risks identified and considered in the company's climate risk assessment;
- reading the disclosures in the annual report to consider if they are materially consistent with the financial statements and our knowledge obtained in the audit;
- evaluating critical accounting estimates and judgements disclosed in the financial statements.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

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;
- results of our enquiries of management, internal audit, compliance, and the insurance 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;
  - 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 tax, valuations, IT and actuarial 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 valuation of 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 frameworks 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 and relevant 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 laws and regulations issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) including the company’s regulatory solvency capital requirements.

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. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the 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 to 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;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with FCA and the PRA;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

11.2. Audit response to risks identified (continued)

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.

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 Insurance Audit Committee, we were appointed by shareholders at its general meeting on 21 June 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ended 31 December 2021 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 report 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.

Paul R. Stephenson

Paul Stephenson, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

30 March 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Revenue			
Gross earned premiums	3	47,474	103,805
Premiums ceded to reinsurers	3	(1,919)	(3,518)
Premiums net of reinsurance		45,555	100,287
Investment income	4	2,190	138
Net (loss)/gain on assets and liabilities at fair value through profit or loss	5	(153)	117
Total revenue		47,592	100,542
Other income	6	—	25,000
Total other income		—	25,000
Net Insurance Claims			
Claims and loss adjustment costs	7	(14,467)	(42,374)
Claims and loss adjustment costs recoverable from reinsurers	7	777	(1,114)
Claims and loss adjustment costs		(13,690)	(43,488)
Expenses			
Expenses for acquisition of Insurance contracts	8	(2,812)	(4,194)
Expenses for administration	8	(11,676)	(61,913)
Other expenses	8	—	(276)
		(14,488)	(66,383)
Total expenses		(28,178)	(109,871)
Profit before tax		19,414	15,671
Taxation charge	10	(3,689)	(6,900)
Profit for the year and total comprehensive income		15,725	8,771

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year. Accordingly, the profit for the year is the same as total comprehensive income for the year.

The notes set out on pages 24 to 52 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Deferred costs	11	110	918
Reinsurance assets	12	752	1,910
Financial assets:			
Loans and receivables at amortised cost	13	6,214	53,821
Investments at fair value through profit or loss	14	98,160	97,372
Cash and cash equivalents	15	98,721	129,989
Total assets		203,957	284,010
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	16	31,000	31,000
Retained profits		124,294	133,569
Total equity		155,294	164,569
Liabilities			
Insurance contracts	17	36,364	94,058
Current tax liabilities	18	3,689	9,036
Provisions for other liabilities and charges	19	2,899	2,099
Accruals	20	1,569	502
Financial liabilities:			
Other financial liabilities	21	4,142	13,746
Total liabilities		48,663	119,441
Total equity and liabilities		203,957	284,010

The notes set out on pages 24 to 52 are an integral part of these financial statements.

The financial statements on pages 20 to 52 were approved by the Board on 30 March 2023 and signed on behalf of the Board:

J C S Hillman

Director

30 March 2023

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
Cash flows used in operating activities			
Profit before tax		19,414	15,671
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	4,5	(2,037)	(255)
Net increase in operating assets and liabilities	22	(15,858)	(6,553)
Sale of customer list	6	—	(25,000)
Taxation paid		(9,036)	(10,898)
Net cash flows used in operating activities		(7,517)	(27,035)
Cash flows from investing activities			
Proceeds from redemption of debt security investment		—	7,127
Net increase of investments at fair value through profit or loss		(941)	(46)
Dividends and other income received	4	2,190	138
Sale of customer list	6	—	25,000
Net cash flows generated from investing activities		1,249	32,219
Cash flows (used in)/generated from financing activities			
Dividends paid	23	(25,000)	(25,000)
Issue of share capital	16	—	30,000
Net cash flows (used in)/generated from financing activities		(25,000)	5,000
Net (decrease)/increase in cash and cash equivalents		(31,268)	10,184
Cash and cash equivalents at the beginning of the year		129,989	119,805
Net cash and cash equivalents at the end of the year	15	98,721	129,989

The notes set out on pages 24 to 52 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2021		1,000	149,798	150,798
Profit and total comprehensive income for the year		—	8,771	8,771
Dividend paid	23	—	(25,000)	(25,000)
Issue of share capital	16	30,000	—	30,000
Balance as at 31 December 2021		31,000	133,569	164,569
Profit and total comprehensive income for the year		—	15,725	15,725
Dividend paid	23	—	(25,000)	(25,000)
Balance as at 31 December 2022		31,000	124,294	155,294

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 25.

The notes set out on pages 24 to 52 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006

(2) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

In accordance with IAS 1 'Presentation of Financial Statements', assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity. Analysis of the assets and liabilities of the Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The Company forms part of Lloyds Banking Group, which prepares a group set of consolidated financial statements under IFRS which includes the Company.

Standards and interpretations effective in 2022

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2022 which have had a material impact on the Company.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 28.

(b) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management's policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies.

On initial recognition, financial assets are classified as measured at amortised cost or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

The Company initially recognises financial assets and liabilities when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss are expensed through the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, both in the normal course of business and in the event of default, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(c) Fair value methodology

All assets and liabilities carried at fair value, or for which a fair value measurement is disclosed, are categorised into a 'fair value hierarchy' as follows:

(i) Level 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies (OEICs) and unit trusts traded in active markets, and exchange traded derivatives such as futures.

(ii) Level 2

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

- Quoted prices for similar (but not identical) instruments in active markets
- Quoted prices for identical or similar instruments in markets that are not active, where prices are not current, or price quotations vary substantially either over time or among market makers
- Inputs other than quoted prices that are observable for the instrument (for example, interest rates and yield curves observable at commonly quoted intervals and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

Examples of these are securities measured using discounted cash flow models based on market observable swap yields such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example private equity investments held by company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Further analysis of the Company’s instruments held at fair value is set out at note 25. The Company’s management, through a fair value pricing committee, review information on the fair value of the Company’s financial assets and the sensitivities to these values on a regular basis.

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

(d) Revenue recognition

Premiums

Premiums received in respect of all general insurance contracts are recognised as revenue proportionally over the period of coverage. Written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into in a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of insurance premium tax and duties levied on premiums. The amount of insurance premium tax due by the Company which has not been paid over to His Majesty’s Revenue and Customs (HMRC) as at the Balance Sheet date is included as a liability under the heading 'Other financial liabilities'.

Premiums written include adjustments for any differences between premiums recorded in prior years and amounts ultimately received. Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the inwards insurance business.

Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Investment income

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within investment income.

Dividends receivable in respect of listed shares and collective investment vehicles are recognised on the date that these are quoted ex-dividend; other dividend income is recognised when the right to receive the dividend is established. All dividends received are recognised through the statement of comprehensive income, within investment income.

Net gains and losses on assets and liabilities at fair value through profit or loss

Net gains and losses on assets and liabilities at fair value through profit or loss includes both realised and unrealised gains and losses. Movements are recognised in the statement of comprehensive income in the period in which they arise.

Other income

Other income comprises non-recurring income not considered part of the company's ordinary ongoing operating activities.

(e) Expense recognition

Claims and loss adjustment expenses

Claims and loss adjustment expenses, including claims handling expenses, are charged to the Statement of Comprehensive Income as incurred based on the estimated liability for compensation owed to policyholders or to third parties where policyholders are liable. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Balance Sheet date even if they have not yet been reported to the Company.

Operating expenses

Commissions and other acquisition costs are recognised through the Statement of Comprehensive Income, within expenses for the acquisition of insurance contracts. Commission and other acquisition costs that vary with and are directly related to renewing existing contracts are deferred as set out in policy (f).

Other operating expenses are recognised in the Statement of Comprehensive Income as incurred, within expenses for administration.

(f) Deferred costs

Deferred acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are directly related to renewing existing contracts are capitalised as an intangible asset, where they can be identified separately and measured reliably and it is probable that they will be recovered. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised in line with earned premiums.

(g) Assets arising from reinsurance contracts held

The Company cedes reinsurance in the normal course of business. Where the reinsurance contract transfers significant insurance risk to the reinsurer, the assets arising from reinsurance contracts held are classified as insurance contracts.

Reinsurance assets (classified as insurance contracts)

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying contracts and in accordance with the terms of each reinsurance contract. These balances are subject to an annual impairment review. Further information on the Company's impairment policy is set out at policy (k).

Changes in these assets are recognised in the statement of comprehensive income, through change in reinsurance assets.

Premiums ceded and claims recoverable are recognised when corresponding insurance premiums are assumed and claims incurred. These items are disclosed separately on the face of the statement of comprehensive income.

(h) Loans and receivables at amortised cost

Loans and receivables at amortised cost are financial assets, other than cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest, a basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(h) Loans and receivables at amortised cost (continued)

Loans and receivables at amortised cost are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out at policy (k).

(i) Investments at fair value through profit or loss

Investments at fair value through profit or loss comprise debt and equity securities and certain cash and cash equivalents.

Classification

Financial assets are classified at fair value through profit or loss where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not otherwise meet the criteria to be measured at amortised cost. All equity instruments are carried at fair value through profit or loss.

Recognition

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase the asset from, or deliver the asset to, the counterparty. Investments are initially recognised at their fair value and are subsequently remeasured at fair value.

Measurement

The fair values of investments are based on current bid prices and therefore price in market expectations of the expected effects of potential changes to laws and regulations, risks associated with climate, credit and general market change and other factors. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 1(c) Fair value methodology and note 25 Risk management for details of valuation techniques and significant inputs to valuation models.

Structured entities

The Company holds investments in structured entities arising from investments in collective investment vehicles. Unconsolidated collective investment vehicles are carried at fair value.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set off exists.

Cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and cash equivalents that are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or do not meet the criteria to be measured at amortised cost are classified and measured as investments at fair value through profit or loss, as set out in policy (i).

Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income.

(k) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(k) Impairment (continued)

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop.

The loss allowance for trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

Non-financial assets

Assets that have an indefinite useful life, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(l) Taxes (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

(m) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(n) Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

(o) Insurance contracts

The Company issues insurance contracts, which transfer significant insurance risk. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. 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 over time.

Recognition and measurement

All insurance contracts issued by the Company are short-term contracts categorised as home and creditor.

Home insurance contracts mainly compensate the Company’s customers for damage suffered to their properties and their contents.

Creditor contracts mainly compensate the Company’s customers against the cost to the insured of sustaining injury, suffering sickness or infirmity or suffering loss of income where the benefits payable under the contract relate to loans, credit card balances or other debts.

For all these contracts, the portion of premium received on in-force contracts that relates to unexpired risks at the Balance Sheet date is reported as the unearned premium reserve. The Company does not discount its liabilities for unpaid claims.

The provision for outstanding claims represents the ultimate cost of settling all claims, including direct and indirect claims settlement costs, arising from events that have occurred up to the Balance Sheet date. This provision comprises an amount for the cost of claims reported but not settled and for claims incurred but not yet reported. An uncertainty provision is also held based on a range of risk factors such as the economic environment and uncertainty in relation to actuarial assumptions and methodology. The approach to setting this is unchanged from last year.

The provision for claims incurred but not reported at the date of the Balance Sheet and the related claims settlement expenses together with the anticipated reinsurance and other recoveries, is made on the basis of the best information currently available, having regard, in particular, to past claims experience. Subsequent information and events may result in the ultimate liabilities being more than, or less than, the amount provided for the estimated net liabilities at a particular Balance Sheet date. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in the earnings of the year in which the adjustments are made.

A liability adequacy test is performed and a provision is made for Unexpired Risk Reserve (URR) at the date the Balance Sheet where the related claims settlement expenses together with the anticipated reinsurance and other recoveries for the unexpired period is greater than the unearned premium reserve at the balance sheet date. The assessment is made on the basis of the best information currently available, having regard, in particular, to past and future expected claims experience. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in the provision during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

(p) Provisions for other liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of possible obligations arising is remote.

(q) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

2. Critical accounting judgements and key sources of estimation uncertainty

The Company’s management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

a. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

In particular, home insurance policies are exposed to claims for a wide variety of perils with the most material being escape of water, fire and subsidence. In relation to subsidence claims, the Company subscribes to the Association of British Insurers (ABI) Subsidence 'Change of Insurer' Claims Agreement which places an obligation upon it to deal with subsidence claims. Hence the estimation of the ultimate cost of subsidence claims is complex.

In addition, the Company writes creditor policies which are exposed to claims for a wide variety of perils with the most material being unemployment and accident and health. These claims make up a smaller proportion of the overall reserves.

Where there is insufficient information to determine the required provision, statistical techniques are used which take into account the cost of claims that have recently been settled and make assumptions about the future development of the outstanding cases. Similar statistical techniques are used to determine a provision for claims incurred but not reported at the Balance Sheet date.

Further information on the Company's assumptions, change in assumptions and sensitivities are set out in note 24.

b. *Critical judgements*

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the Company’s accounting policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Premiums net of reinsurance

	2022 £'000	2021 £'000
Short-term insurance contracts		
- premiums receivable	12,669	88,853
- change in unearned premium reserve	34,805	14,952
Total gross earned premiums	47,474	103,805
Short-term reinsurance contracts		
- premiums payable	(344)	(3,410)
- change in unearned premium reserve	(1,575)	(108)
Total premiums ceded to reinsurers	(1,919)	(3,518)
Total premiums net of reinsurance	45,555	100,287

4. Investment income

	2022 £'000	2021 £'000
Income on investments at fair value through profit or loss	—	32
Other Interest Income	2,190	106
Total	2,190	138

5. Net (loss)/gain on assets and liabilities at fair value through profit or loss

	2022 £'000	2021 £'000
Net (loss)/gain on assets held at fair value through profit or loss	(153)	117
Total	(153)	117

Net (loss)/gains on assets held at fair value through profit or loss include net realised (loss)/gain of £nil (2021: gains of £0.1 million) and net unrealised loss of £0.2 million (2021: gains of £nil).

6. Other income

	2022 £'000	2021 £'000
Other income	—	25,000
Total	—	25,000

Other income of £25.0 million in 2021 is in respect of the sale of the home book of business to Lloyds Bank General Insurance Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

7. Claims and loss adjustment costs

	2022			2021		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Current year claims and loss adjustment costs (note 17)	21,696	—	21,696	47,455	216	47,671
Movement in costs of prior year claims and loss adjustment costs (note 17)	(5,500)	(777)	(6,277)	(3,911)	898	(3,013)
Movement in the expected cost of claims for unexpired risks (note 17)	(1,729)	—	(1,729)	(1,170)	—	(1,170)
Total claims and loss adjustment costs	14,467	(777)	13,690	42,374	1,114	43,488

8. Expenses

	2022	2021
	£'000	£'000
Fees and commissions payable	2,004	3,936
Change in deferred costs	808	258
Expenses for the acquisition of insurance contracts	2,812	4,194
Expenses for administration	11,676	61,913
Other expenses	—	276
Total	14,488	66,383

The administration of the Company is undertaken by another group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, although there are some operating expenses which are incurred directly by the Company. In 2022 expenses recharged to the Company were £9.9 million (2021: £19.2 million) of which £1.8 million (2021: £3.3 million) of claims handling expenses were allocated to insurance claims costs.

The Company had no direct employees during the year (2021: nil). Employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

In 2021, expenses for administration includes £44.8 million in respect of a fine imposed by the Financial Conduct Authority. This followed the published findings of an investigation into the way the General Insurance business unit had communicated with home insurance customers about renewal of their policies between 2009 and 2017. The penalty was settled in full on 16 July 2021.

Other expenses in 2021 relate to the impairment of premiums receivable from intermediaries where there is no likelihood of recoverability.

9. Auditor's remuneration

	2022	2021
	£'000	£'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	242	254
Total fees payable	242	254

Audit fees are borne by another company within Lloyds Banking Group and recharged to the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. Taxation charge

(a) Current year tax charge

	2022 £'000	2021 £'000
Current tax:		
Current tax on taxable profit for the year	3,689	9,036
Adjustment in respect of prior years	—	88
Total current tax	3,689	9,124
Deferred tax:		
Deferred tax credit	—	(2,224)
Total deferred tax	—	(2,224)
Total income tax charge	3,689	6,900

(b) Reconciliation of tax charge

	2022 £'000	2021 £'000
Profit before tax	19,414	15,671
Tax at 19% (2021: 19.0%)	3,689	2,977
Effects of:		
Disallowable fine and expenses	—	8,585
Non-taxable income - sale of customer list	—	(4,750)
Adjustments in respect of prior years	—	88
Total	3,689	6,900

The effective tax rate for the year is 19 per cent (2021: 44 per cent).

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023.

11. Deferred costs

	2022 £'000	2021 £'000
At 1 January	918	1,176
Additions	1,992	3,442
Amortisation through Statement of Comprehensive Income	(2,800)	(3,700)
At 31 December	110	918

All of the above deferred costs are expected to be released within one year after the reporting date.

Amortisation is charged to expenses for the acquisition of insurance contracts in the Statement of Comprehensive Income.

12. Reinsurance assets

	2022 £'000	2021 £'000
Reinsurers’ unearned premium	—	1,575
Reinsurers’ share of claims reserves	752	335
Total	752	1,910

The reinsurers' share of claims reserves relates to Flood Re and are therefore is only recovered once the claim has settled.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. Loans and receivables at amortised cost

	2022 £'000	2021 £'000
Due from policyholders	193	37,205
Due from related parties	5,420	16,160
Other	601	456
Total	6,214	53,821

All of the above loans and receivables at amortised cost are expected to be received within one year of the reporting date.

14. Investments at fair value through profit or loss

	2022 £'000	2021 £'000
Collective Investment Schemes - unlisted	98,160	97,372
Total	98,160	97,372

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 15) are investments in unconsolidated structured entities of £163.9 million (2021: £203.4 million) arising from investments in collective investment schemes and liquidity funds.

The collective investment schemes and liquidity funds are primarily financed by investments from investors in the vehicles. The investments are carried at fair value and the Company's maximum exposure to loss is equal to the carrying value of the investment.

15. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and in hand	32,989	23,942
Investments held through liquidity funds	65,732	106,047
Total	98,721	129,989

16. Share capital

	2022 £'000	2021 £'000
Issued and fully paid share capital:		
31,000,000 (2021: 31,000,000) ordinary shares of £1 each	31,000	31,000
Total	31,000	31,000

17. Insurance contracts

	2022			2021		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Recoverable from reinsurers*	*Net*	*Gross*	*Recoverable from reinsurers*	*Net*
Short-term insurance contracts						
Claims reported & loss adjustment costs	22,784	(752)	22,032	39,367	(317)	39,050
Claims incurred but not reported	13,211	—	13,211	17,788	(18)	17,770
Unexpired risk reserve	—	—	—	1,729	—	1,729
Unearned premiums	369	—	369	35,174	(1,575)	33,599
Total insurance liabilities	36,364	(752)	35,612	94,058	(1,910)	92,148

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17. Insurance contracts (continued)

Of the above total £10.8 million (2021: £15.7 million) is expected to be settled more than one year after the reporting date.

The unexpired risk reserve of £Nil (2021: £1.7 million) is in respect of the creditor insurance business.

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses

	2022			2021		
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Reported claims	39,366	(317)	39,049	35,119	(1,901)	33,218
Incurred but not reported	17,788	(18)	17,770	22,307	(966)	21,341
Total at the beginning of the year	**57,154**	**(335)**	**56,819**	**57,426**	**(2,867)**	**54,559**
Cash paid for claims settled in the year	(37,355)	360	(36,995)	(43,816)	1,418	(42,398)
Increase in liabilities:						
Arising from current year claims	21,696	—	21,696	47,455	216	47,671
Arising from prior year claims	(5,500)	(777)	(6,277)	(3,911)	898	(3,013)
Total at the end of the year	35,995	(752)	35,243	57,154	(335)	56,819
Reported claims	22,784	(752)	22,032	39,366	(317)	39,049
Incurred but not reported	13,211	—	13,211	17,788	(18)	17,770
Total at the end of the year	35,995	(752)	35,243	57,154	(335)	56,819

The accounting policy for insurance contracts is described in Note 1. During 2021, the Company made a voluntary change to the detail of this accounting policy which has resulted in a change to the method of estimation of insurance contract liabilities.

(b) Unearned premiums and unexpired short-term insurance risks

	2022			2021		
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Unearned premiums						
At 1 January	35,174	(1,575)	33,599	50,126	(1,683)	48,443
Increase in the year	12,669	(344)	12,325	88,853	(3,410)	85,443
Release in the year	(47,474)	1,919	(45,555)	(103,805)	3,518	(100,287)
At 31 December	369	—	369	35,174	(1,575)	33,599

	2022			2021		
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Gross	*Recoverable from reinsurers*	*Net*	*Gross*	*Recoverable from reinsurers*	*Net*
Unexpired risk reserve						
At 1 January	1,729	—	1,729	2,898	—	2,898
(Release)/increase in the year	(1,729)	—	(1,729)	(1,170)	—	(1,170)
At 31 December	—	—	—	1,728	—	1,728

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end. The unexpired risk provision relates to creditor insurance policies for which the Company expects to pay claims in excess of the related unearned premium provision.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. Tax liabilities

	2022 £'000	2021 £'000
Current tax liabilities	3,689	9,036
Deferred tax liabilities	—	—
Total tax liabilities	3,689	9,036

Recognised deferred tax

The tax credit in the statement of comprehensive income relating to each of the above items is as follows:

	2022 £'000	2021 £'000
Claims equalisation reserve provision	—	(2,224)
Total deferred tax credit	—	(2,224)

Finance Act 2012, s26 abolished relief for claims equalisation reserves with effect from an appointed day, confirmed as 1 January 2016 per Statutory Instrument 2015/1999. As a result, the CER has unwound at 1/6th each year from the accounting period ending 31 December 2016.

19. Provisions for other liabilities and charges

2022	Customer Discount Communications £'000	Payment Protection Insurance (PPI) £'000	Other £'000	Total £'000
At 1 January	327	944	828	2,099
Increase/(release) in the year	1	(600)	2,898	2,299
Utilised during the year	45	(294)	(1,250)	(1,499)
At 31 December	373	50	2,476	2,899

2021	Customer Discount Communications £'000	Payment Protection Insurance (PPI) £'000	Other £'000	Total £'000
At 1 January	4,977	1,224	3,876	10,077
Increase/(release) in the year	(1,579)	—	2,146	567
Utilised during the year	(3,071)	(280)	(5,194)	(8,545)
At 31 December	327	944	828	2,099

(a) Customer Discount Communications

Following investigations relating to an anomaly with communication of discounts on certain home insurance contracts, provisions were established in the Company to reflect the best estimate of rectification payments to be made to customers whether directly incurred by the Company or indemnified for Halifax General Insurance Services Limited, under the Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

(b) Payment Protection Insurance (PPI)

The Company provided for redress costs pertaining to sales related complaints on PPI products following sales made up until 2010. The Company’s estimate of the likely remaining redress costs from these sales at the end of 2022 is £0.1 million and has provided for this cost appropriately.

(c) Other

At 31 December 2022, £2.5 million is held in respect of product rectification costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

20. Accruals

	2022 £'000	2021 £'000
Accrued expenses	1,569	502
Total	1,569	502

All accruals are current liabilities.

21. Other financial liabilities

	2022 £'000	2021 £'000
Insurance payables	246	1,226
Due to related parties	2,893	8,934
Other taxes payable	364	1,697
Other payables	639	1,889
Total	4,142	13,746

All insurance and other payables are current liabilities.

22. Net (increase)/decrease in operating assets and liabilities

	2022 £'000	2021 £'000
Net decrease in operating assets		
Deferred costs	808	258
Loans and receivables	47,607	15,766
Net decrease in operating assets	48,415	16,024
Net (decrease)/increase in operating liabilities		
Insurance contract liabilities (net)	(56,536)	(13,750)
Provisions for other liabilities and charges	800	(7,978)
Other financial liabilities and accruals	(8,537)	(849)
Net (decrease) in operating liabilities	(64,273)	(22,577)
Net increase in operating assets and liabilities	(15,858)	(6,553)

23. Dividends paid

	2022 £'000	2021 £'000
Total dividends paid on equity shares	25,000	25,000
Total	25,000	25,000

Dividends of £25 million (80.6 pence per share) were paid during the year in respect of 2022 (2021: £25 million, 80.6 pence per share).

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities

(1) Processes used to determine key assumptions in respect of insurance contracts

The methodology and assumptions used in relation to determining the bases of the earned premium levels are derived for each individual underwritten product and contained within the appropriate software programmes of the in-house policy underwriting system. Assumptions are intended to be neutral estimates of the most likely or expected outcome (best estimates).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

(1) Processes used to determine key assumptions in respect of insurance contracts (continued)

The levels, adequacies and assumptions used to determine claims reserves are set out in the Claims and Reserving Working Group (CRWG) and Claims and Reserving Committee (CRC) Reports.

These reports from the GI Chief Actuary and recommendations are formally reviewed by the Claims and Reserving Committee on a regular basis.

An analysis of methodology and assumptions in calculating technical reserves is shown below for each significant product class.

(2) Key assumptions

(a) Home

Significant perils and loss factors include storm, flood, escape of water, freeze, fire and subsidence. The reserving methodology and associated assumptions are set out below:

Outstanding claims reserve (OCR)

The OCR represents the case estimate reserves held in respect of claims which have been reported before the accounting date.

Claims incurred but not reported reserve (IBNR)

The IBNR reflects the difference between the total reserves (set using standard actuarial techniques), and the OCR (which reflects reported reserves only).

The IBNR covers both:

- Incurred but not enough reported (IBNER) – a reserve to provide for changes in the case estimates of those claims which have been reported before the accounting date
- Pure IBNR – a reserve to provide for those claims which have occurred before the accounting date, but have yet to be reported to the insurer

The IBNR is determined for each peril separately using various actuarial techniques, such as the application of a chain ladder statistical projection method to reported case estimates, paid amounts and volumes.

A reserve margin is held to provision for uncertainty. This is based on a percentile based approach using the reserve risk distribution from the PRA approved Internal Capital model. The Capital model is primarily used to set the Solvency Capital Requirement.

The level of uncertainty provision selected is based on a range of risk factors such as the economic environment and uncertainty in relation to actuarial assumptions and methodology. This is held in addition to the OCR and IBNR. The reserve margin is also considered as a percentage of best estimate reserves when selecting the amount to hold. The approach to calculating the reserve margin is unchanged from the prior year.

Major events such as storms or floods are considered separately, using projection patterns appropriate to the specific event in question.

Unearned premium reserve (UPR)

The UPR is calculated using a daily allocation method.

(b) Creditor

Significant perils and loss factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The vast majority of financial loss business underwritten by the Company consists of loan protection covering accident, sickness and unemployment. The reserving methodology and associated assumptions for loan protection are set out below:

Claims In Course of Payment reserve (ICOP Reserve)

ICOP reflects the total reserves set using standard actuarial techniques for claims which have been reported before the accounting date.

Claims Incurred but not Reported reserve (IBNR Reserve)

IBNR reflects the difference between the total reserves and ICOP and is the reserve for claims reported after the accounting date, that have occurred before the accounting date.

An uncertainty provision is also held for the Creditor book. In particular uncertainty arises as a result of the book being in run-off and therefore subject to volatility, as well as the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

(2) <u>Key assumptions (continued)</u>

(b) Creditor (continued)

The Company changed its accounting policy on how to estimate the reserve margin required for uncertainties during the year. Previously, uncertainty provisions were set as a fixed amount of £2.5m. They are now calculated using the same approach as household . Management takes the view that this policy provides reliable and more relevant information because it provides a documented approach for considering reserving uncertainty as opposed to needing consideration of individual uncertainty provisions, that may be subjective and difficult to quantify. It allows consideration of a wider range of uncertainties, providing a more holistic view of uncertainty in a quantifiable way. As noted above, this approach is based on the reserve risk distribution from the Internal Capital model and is therefore consistent with the Internal Model used within the business. The new policy has been applied for the 2022 financial year. It was not practicable to restate comparatives since this would have required the use of hindsight by management.

Unearned premium reserve (UPR)

Earned premiums are calculated on a basis that reflects the length of time for which contracts have been in force and the projected incidence of risk over the term of each contract.

(3) <u>Claims development tables</u>

The development of insurance liabilities is a measure of the Company's ability to estimate the ultimate value of claims.

The top half of each of the following tables below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the liability amount appearing in the Balance Sheet. The accident year basis is considered the most appropriate for the business written by the Company.

Home - gross

Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£'000**
Estimate of ultimate claims costs:											
- at end of accident year	137.2	118.3	104.3	77.7	54.8	55.0	34.7	32.6	27.1	11.1	
- one year later	131.0	121.3	95.0	77.7	49.8	49.4	30.2	30.5	28.4	—	
- two years later	131.1	120.4	97.6	71.0	48.8	47.4	28.5	29.9	—	—	
- three years later	128.7	122.6	93.5	70.6	46.7	47.6	29.4	—	—	—	
- four years later	129.3	120.5	93.9	70.3	46.6	48.7	—	—	—	—	
- five years later	127.9	118.9	94.8	70.1	47.2	—	—	—	—	—	
- six years later	127.9	118.6	95.5	70.3	—	—	—	—	—	—	
- seven years later	128.0	118.7	96.8	—	—	—	—	—	—	—	
- eight years later	128.4	118.8	—	—	—	—	—	—	—	—	
- nine years later	128.7	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	128.7	118.8	96.8	70.3	47.2	48.7	29.5	29.9	28.4	11.1	609.4
Cumulative payments to date	(127.9)	(118.0)	(93.5)	(69.5)	(46.3)	(46.1)	(27.5)	(25.7)	(21.1)	(6.1)	(581.7)
Liability recognised in the Balance Sheet	0.8	0.8	3.3	0.8	0.9	2.6	2.0	4.2	7.3	5.0	27.7
Liability in respect of prior years											**2.0**
Total gross liability included in the Balance Sheet											**29.7**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

(3) Claims development tables (continued)

Home - net

Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of ultimate claims costs:											
- at end of accident year	137.2	118.3	104.3	77.7	54.8	54.7	34.0	31.5	26.9	11.1	
- one year later	131.0	121.3	95.0	77.7	49.8	49.1	29.5	29.1	28.2	—	
- two years later	131.1	120.4	97.6	71.0	48.8	47.2	27.5	28.0	—	—	
- three years later	128.7	122.6	93.5	70.5	46.7	47.4	28.6	—	—	—	
- four years later	129.3	120.5	93.9	70.2	46.6	48.4	—	—	—	—	
- five years later	127.9	118.9	94.8	70.0	47.2	—	—	—	—	—	
- six years later	127.9	118.6	95.5	70.2	—	—	—	—	—	—	
- seven years later	128.0	118.7	96.8	—	—	—	—	—	—	—	
- eight years later	128.4	118.8	—	—	—	—	—	—	—	—	
- nine years later	128.7	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	128.7	118.8	96.8	70.2	47.2	48.5	28.6	28.0	28.2	11.1	606.1
Cumulative payments to date	(127.9)	(118.0)	(93.5)	(69.4)	(46.3)	(45.9)	(26.6)	(24.3)	(21.1)	(6.1)	(579.1)
Liability recognised in the Balance Sheet	0.8	0.8	3.3	0.8	0.9	2.6	2.0	3.7	7.1	5.0	27.0
Liability in respect of prior years											**2.0**
Total net liability included in the Balance Sheet											**29.0**

As at the year ended 31 December 2022 the Company limited its exposure to loss within insurance operations through participation in reinsurance arrangements. The home portfolio is protected through a catastrophe excess of loss arrangement which operates across both the Company and Lloyds Bank General Insurance Limited. The reinsurance programme was renewed on 1 July 2022. Amounts recoverable from reinsurers were estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits. The purpose of a home excess of loss catastrophe reinsurance programme is to protect against the adverse effects of large weather related events. In addition to catastrophe cover the Company purchases reinsurance for individual flood risks from Flood Re.

The gross home liability of £29.7 million and net liability of £29.0 million shown in the above tables excludes £1.3 million (2021: £1.8 million) of unallocated claims handling expenses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

(3) Claims development tables (continued)

Creditor - gross and net

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 claims costs:											
- at end of accident year	26.9	18.5	15.8	14.1	17.4	14.4	11.4	14.6	12.8	5.3	
- one year later	21.5	17.4	16.7	15.9	13.5	13.0	10.4	15.7	6.2	—	
- two years later	22.7	16.9	16.4	15.7	12.3	11.0	9.0	11.8	—	—	
- three years later	22.0	16.8	16.6	15.6	12.2	10.9	8.9	—	—	—	
- four years later	21.7	17.3	16.5	15.6	12.1	11.0	—	—	—	—	
- five years later	22.2	16.8	16.5	15.6	12.1	—	—	—	—	—	
- six years later	21.8	16.8	16.5	15.6	—	—	—	—	—	—	
- seven years later	21.8	16.8	16.5	—	—	—	—	—	—	—	
- eight years later	21.8	16.8	—	—	—	—	—	—	—	—	
- nine years later	21.8	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	21.8	16.8	16.5	15.6	12.1	11.0	8.9	11.8	6.2	5.3	126.0
Cumulative payments to date	(21.8)	(16.8)	(16.5)	(15.6)	(12.1)	(11.0)	(8.9)	(11.7)	(5.6)	(2.1)	(122.1)
Liability recognised in the Balance Sheet	—	—	—	—	—	—	—	0.1	0.6	3.2	3.9
Liability in respect of prior years											**—**
Total gross liability included in the Balance Sheet											**3.9**

The Company has not had any reinsurance cover in place for the current and preceding 5 years in respect of creditor insurance.

The creditor liability of £3.9 million shown in the above tables excludes £1.0 million (2021: £0.9 million) of unallocated claims handling expenses and £Nil of Additional Unexpired Risk Reserve (AURR) (2021: £1.7 million).

While management believes that the total insurance liability for all products in the portfolio carried at year end is adequate, the application of statistical techniques requires significant judgment. An increase of 10 per cent in the cost of total claims outstanding would result in the recognition of an additional cost of £3.3 million net of reinsurance (2021: £5.2 million). Similarly, an increase of 10 per cent in the number of all claims would result in the recognition of an additional cost of £3.6 million net of reinsurance (2021: £5.5 million). A 5 per cent increase in the inflation rate of claims would result in the recognition of an additional cost of £1.7 million net of reinsurance (2021: £2.6 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management

The Company is a part of Lloyds Banking Group. The principal activity of the Company is the undertaking of general insurance business in the UK. The Company underwrites a range of general insurance products such as home insurance and creditor insurance. Products were marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the Lloyds Banking Group network and corporate partnerships. The Company also reinsures business with insurance entities external to the Company.

This note summarises the financial risks and the way in which they are managed.

The Company is exposed to financial risk through its financial assets, financial liabilities, assets arising from reinsurance contracts and liabilities arising from insurance contracts. In particular, the key financial risk is that investment proceeds are not sufficient to fund the obligations arising from its insurance contracts.

The Company manages these risks in a number of ways, including risk appetite assessment and monitoring of capital resource requirements. The Company has a defined investment policy which sets out limits on the Company's exposure to its investments. Investment management meetings are held regularly where the Company's investments are reviewed. Exposure to investments are monitored by the finance function in order to ensure compliance with internal and relevant external regulatory limits for solvency purposes and to allow additional measures to be taken if limits are breached.

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The sensitivity analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

(a) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market movements, in particular equity, credit default spreads, interest rates and inflation in Insurance business.

The Company's objective in managing market risk is to maximise returns from investments whilst ensuring regulatory requirements are met and adequate financial security is maintained on an ongoing basis.

The Company is exposed to market risk through its portfolio of investments, the majority of which are short term in nature. The Company categorises its financial assets at fair value through profit or loss as follows:

- Collective investment schemes: unlisted investments which are authorised and regulated by the FCA and fall under the EU directive on Undertakings for Collective Investment in Transferable Securities;
- Listed debt securities: includes sterling denominated floating rate notes; and
- Unlisted debt securities: All classed as level 3, comprising asset backed securities and covered bonds which are not actively traded and are valued using a discounted cash flow model.

Below is an analysis of assets and liabilities at fair value through profit or loss and assets and liabilities for which a fair value is required to be disclosed, according to their fair value hierarchy (as defined in note 1 (c)).

As at 31 December 2022

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Collective Investment Schemes - unlisted	98,160	—	—	98,160
Schroder Sterling Liquidity Fund	65,732	—	—	65,732
Total assets	163,892	—	—	163,892

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(a) Market risk (continued)

As at 31 December 2021

	Fair value hierarchy Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Collective Investment Schemes - unlisted	97,372	—	—	97,372
Schroder Sterling Liquidity Fund	106,047	—	—	106,047
Total assets	203,419	—	—	203,419

The table below shows movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

	2022 £'000	2021 £'000
Balance at 1 January	—	7,168
Disposals	—	(7,127)
Net (losses) recognised within net (losses)/gains on assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income	—	(41)
Balance at 31 December	—	—
Total unrealised (losses)/gains for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	—	46

An additional source of market risk is the mismatch between payout patterns of liabilities and the assets backing those liabilities. However, this component is a minor source of risk for the Company because the majority of assets as well as liabilities are of a short term nature.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk in respect of the Company's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

The Company underwrites predominantly short-term insurance liabilities with durations of less than 5 years, which are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing.

Impact on profit after tax and equity at reporting date	2022 £'000	2021 £'000
100 basis points increase in yield curves	657	1,060
100 basis points decrease in yield curves	(657)	(1,060)

(b) Insurance underwriting risk

Insurance underwriting risk is defined as the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events, leading to reductions in earnings and/or value.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number of claims will vary from year to year from the estimate established using statistical techniques. When submitting a claim, proof will be needed. The Company follows any principles set up by the ABI and PRA in respect of handling claims. Claims information is retained to help with the estimation of future claim payments and risk pricing.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(b) Insurance underwriting risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to ensure that within each of its risk categories sufficiently large populations of risks are achieved to reduce the variability of the expected outcome.

(i) Home

Frequency and severity of claims

For home insurance contracts, climatic changes appear to be giving rise to more frequent and severe extreme weather events and their consequences. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company can charge a premium appropriate to the risk presented, decline to underwrite certain applications at sale, impose policy terms and conditions or higher excesses and, in the majority of cases, has the right not to renew individual policies. The Company also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e. subrogation).

The Company has the right to re-price the risk on renewal and also has the ability to impose excesses. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Claim payment limits are always included for contents insurance to cap the amount payable on occurrence of the insured event. Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood, escape of water, freeze, fire and subsidence. The Company has reinsurance cover for natural and man-made catastrophes to limit losses in any one year from both large single events and a number of events occurring over the year. The maximum loss for a single event up to £773.1 million is £79.8 million across the Company and Lloyds Bank General Insurance Limited (2021: £717.1 million, £98.3 million). £119.5 million of aggregate protection is provided which responds when the total cost for events greater than £2.0 million exceeds £151.7 million (2021: £125.0 million, £149.0 million). Due to the migration of the Company's policies, at year end the reinsurance cover primarily protects Lloyds Banking General Insurance Limited. Whilst a very small number of risks remain live, they are well diversified geographically and will only contribute a negligible amount of any loss event until their expiry during January 2023. On this basis, this is too small to allocate a proportion of the reinsurance programme. In addition to catastrophe cover the Company purchases reinsurance for individual flood risks from Flood Re.

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates, and there is a balance between buildings and contents in the overall portfolio.

Sources of uncertainty in the estimation of future claim payments

Home claims are analysed separately for each peril. The development of accumulations of weather claims in a single catastrophic event is analysed separately. The shorter settlement period for non-subsidence/liability claims allows the Company to achieve a higher degree of certainty about the estimated cost of these claims, and a relatively small Incurred but not Reported (IBNR) reserve is held at year-end. However, the longer time needed to assess the emergence of a subsidence or liability claim makes the estimation process more uncertain for these claims.

(ii) Creditor

Frequency and severity of claims

Significant perils and risk factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The majority of financial loss business underwritten by the Company is payment protection, which has accident, sickness and unemployment as its main perils.

The claim amount paid is fixed at the level of repayment and is capped for a maximum duration for most contracts. There are waiting and exclusion periods during which no claim will be accepted. In addition, in the case of sickness, any pre-existing health conditions will not be covered.

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates. A credit scoring system and procedures are in place to approve loans on which insurance will be offered.

Sources of uncertainty in the estimation of future claim payments

The Company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims would normally allow the Company to achieve a higher degree of certainty about the estimated cost of claims however there is still an IBNR held at year-end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(c) Credit risk

The Company ceased writing new creditor business in 2010, consequently the book is now in run-off which in itself establishes an additional source of uncertainty in analysing the behaviours of a diminishing book against a historically stable portfolio. Future claims payments are driven by economic factors such as unemployment rate and interest rates and as such there is significant uncertainty given the current economic climate.

Credit risk is defined as the risk that parties with whom the Company has contracted fail to meet their financial obligations (both on or off balance sheet).

Investment counterparty default risk arises primarily from holding invested assets to meet liabilities, and reinsurer default credit risk primarily arises from exposure to reinsurers.

Management considers that the Company’s only significant potential credit risk exposures are from reinsurance and financial assets held at fair value through profit or loss. Adequate and effective procedures are in place to mitigate these exposures and all the other sources of credit risk identified by the business. Credit risk exposure from insurance receivables is not considered to be significant, as the risk is diversified across a large volume of policyholders for all products and the amount of unpaid premiums at the Balance Sheet date is not significant. A provision for doubtful debt is recognised when payments due from policyholders have not been received for at least a month.

The Company’s risk transfer policy addresses the management of reinsurance credit risk and is authorised by the Insurance, Pensions and Investments Asset and Liability Committee (IP&IALCO). Only reinsurers with a minimum credit rating of 'A-' will be accepted. The Company also requires a 'special termination clause' in all contracts allowing a reinsurer to be replaced mid-term, in the event their security rating is downgraded below an acceptable level during the period of the reinsurance contract.

Reinsurance claims recoveries management information is supplied to the actuarial function by the reinsurance broker. The Company’s actuarial function monitors the status of claims made on reinsurance policies. Reinsurance is primarily used to reduce insurance risk. However, it is also sought for other reasons such as improving profitability, reducing capital requirements and obtaining technical support.

The Company’s investment policy sets rules limiting exposure to concentrations of risk as a result of aggregation of exposure to any single counterparty. Setting limits mitigates such credit risk exposure and also ensures compliance with regulatory requirements. Credit default risk is the most significant financial risk, but this is mitigated by a cautious approach to counterparty risk.

The tables below analyses financial assets subject to credit risk using Moody’s or equivalent:

As at 31 December 2022

	Total	AAA	AA/A	BBB	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	98,721	—	98,721	—	—
Loans and receivables at amortised cost	6,021	—	—	—	6,021
Exposure to credit risk	104,742	—	98,721	—	6,021
Simplified approach assets					
Loans and receivables at amortised cost	193	—	—	—	193
Exposure to credit risk	193	—	—	—	193
Assets at FVTPL					
Collective investment schemes - unlisted	98,160	—	98,160	—	—
Other					
Reinsurance contracts	752	—	752	—	—
Total	203,847	—	197,633	—	6,214

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(c) Credit risk (continued)

As at 31 December 2021

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	129,989	106,047	23,942	—	—
Loans and receivables at amortised cost	16,616	—	—	—	16,616
Exposure to credit risk	146,605	106,047	23,942	—	16,616
Simplified approach assets					
Loans and receivables at amortised cost	37,205	—	—	—	37,205
Exposure to credit risk	37,205	—	—	—	37,205
Assets at FVTPL					
Collective investment schemes - unlisted	97,372	97,372	—	—	—
Other					
Reinsurance contracts	1,910	—	1,910	—	—
Total	283,092	203,419	25,852	—	53,821

(d) Capital risk

Capital risk is defined as the risk that the Company has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company. The risk that:

- the Company has insufficient capital to meet its regulatory capital requirements
- the Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution

The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated Company in addition to their insurance liabilities. Under the Solvency II rules, the Company must hold assets in excess of this minimum amount, which is derived from an economic capital assessment undertaken by each regulated company and the quality of capital held must also satisfy Solvency II tiering rules. This is reviewed on a quarterly basis by the PRA.

The Solvency II minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Company’s objectives when managing capital are:

- to have sufficient capital to safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders
- to comply with the insurance capital requirements set out by the PRA in the UK
- when capital is needed, to require an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written

The capital management strategy is such that the integrated insurance business (comprising SWG and its subsidiaries, including the Company) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand a one in ten year stress event without breaching the capital requirements. At SWG level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to Lloyds Banking Group.

The Company’s capital comprises all components of equity, movements in which are set out in the Statement of Changes in Equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(d) Capital risk (continued)

The table below sets out the regulatory capital held at 31 December in each year for the Company on a Solvency II basis.

	2022	**2021**
	£'000	**£'000**
Regulatory Capital held (unaudited)	155,667	147,421
Regulatory Capital required (unaudited)	(30,352)	(97,086)
Regulatory Surplus (unaudited)	125,315	50,335

All minimum regulatory requirements were met during the year.

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from an insurance liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

The main objective of the Company's liquidity risk policy is to ensure that all funds within the Company that serve to fulfil liabilities are available in sufficiently liquid form to settle liabilities as and when they fall due. Liquidity risk is considered to be small, as the Company primarily holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs together with short term cash deposits which are viewed as readily available at short notice. The Company routinely reviews its capital and liquidity position and only invests excess liquidity (where balances exceed a level required to settle insurance claims and other creditors including an internal buffer) in longer term assets. As such the assets do not carry any significant liquidity risk.

In order to measure liquidity risk exposure the Company's liquidity is assessed in a stress scenario. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one year stressed outflows are required to be covered by primary and secondary liquid assets, after taking account of management actions. Primary liquid assets are gilts or cash, and secondary liquid assets are tradable non-primary assets

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider Lloyds Banking Group Funding and Liquidity Policy.

The following table analyses the Company's insurance and financial liabilities into relevant maturity groupings. The analysis of insurance liabilities is an estimated maturity analysis of the amount recognised in the Balance Sheet as permitted by IFRS 4. For financial liabilities, the groupings are based on the period remaining at the Balance Sheet to the contractual maturity date. The amounts disclosed in the table are undiscounted.

As at 31 December 2022	**Carrying amount**	**Up to 3 months**	**3-12 months**	**1-2 years**	**More than 2 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short-term insurance contracts	33,408	9,323	13,236	5,668	5,181
Other financial liabilities	5,711	5,711	—	—	—
Total	39,119	15,034	13,236	5,668	5,181

As at 31 December 2021	**Carrying amount**	**Up to 3 months**	**3-12 months**	**1-2 years**	**More than 2 years**
	£'000	£'000	£'000	£'000	£'000
Short-term insurance contracts	51,984	17,848	18,461	8,649	7,026
Other financial liabilities	14,248	14,248	—	—	—
Total	66,232	32,096	18,461	8,649	7,026

Short-term insurance contracts include claims reported and loss adjustment expenses, claims incurred but not reported and unexpired risk reserve as disclosed in note 17.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Risk management (continued)

(f) Concentration risk

Credit concentration risk

Credit concentration risk relates to the inadequate diversification of credit risk.

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. However, for other assets, such as investments in funds falling under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive (which are almost all the Company's assets) no limits are prescribed as the risk of credit concentration is deemed to be immaterial. This policy supports the approach mandated by the PRA for regulatory reporting.

At 31 December 2022 and 31 December 2021, the Company did not have any significant concentration of credit risk with a single counterparty or Group of counterparties where limits applied.

Liquidity concentration risk

Liquidity concentration risk arises where the Company is unable to meet its obligations as they fall due or do so only at an excessive cost, due to over-concentration of investments in particular financial assets or classes of financial asset.

Almost all of the Company's assets are invested in liquidity funds which are designed to give ready access to liquidity.

This is supplemented by active liquidity management in the Company, to ensure that even under stress conditions the Company has sufficient liquidity as required to meet its obligations. This is delegated by the Board to and monitored through the Insurance, Pensions and Investments Asset and Liability Committee (IP&IALCO) and the Insurance Risk Committee (IRC) and Insurance Banking Liquidity Operations Committee (BLOC).

26. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Lloyds Bank General Insurance Holdings Limited, a company registered in the UK. Lloyds Bank General Insurance Holdings Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these Financial Statements. Copies of the consolidated Annual Report and Financial Statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

(b) Transactions with other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year.

	2022			
	Income during period	**Expenses during period**	**Payable at period end**	**Receivable at period end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	—	25,000	—	—
Other related parties	1,167	11,723	3,112	9,045

	2021			
	Income during period	**Expenses during period**	**Payable at period end**	**Receivable at period end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	—	25,000	—	—
Other related parties	30,352	24,872	9,251	20,052

The above balances are unsecured in nature and are expected to be settled in cash.

During the prior year, the Company received £25 million from fellow subsidiary company LBGI as fair value consideration for the back book migration customer list.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. Related party transactions (continued)

(b) Transactions with other Lloyds Banking Group companies (continued)

Parent undertaking transactions relate to all transactions and balances with parent companies, such transactions include cash and cash equivalent balances and Group relief for income tax.

Transactions with other related parties (which include Subsidiaries and other Insurance Intermediaries) are primarily in relation to Intra-Group trading and operating and employee expenses.

Transactions with key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and IP&IExCo members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

Key management compensation:

	2022 £'000	2021 £'000
Short-term employee benefits	383	300
Post-employment benefits	2	2
Share-based payments	75	68
Total	460	370

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £217,085 (2021: £144,177).

There were no retirement benefits accruing to Directors (2021: nil) under defined benefit pension schemes. No Directors (2021: two Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2021: nil).

Certain members of key management in the Company, including the highest paid Director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Group of the total compensation earned.

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £49,538 (2021: £38,754). During the year, no Directors exercised share options (2021: one Director) and one Director received qualifying service shares under long term incentive schemes (2021: one Director).

Movements in share options are as follows:

	2022 Options	2021 Options
Outstanding at 1 January	884,914	1,030,019
Granted	479,763	214,005
Exercised	(273,634)	(130,885)
Forfeited	(246,494)	(231,332)
Dividends awarded	3,716	3,107
Outstanding at 31 December	848,265	884,914

Detail regarding the highest paid Director is as follows:

	2022 £'000	2021 £'000
Apportioned aggregate emoluments	87	82
Apportioned share-based payments	35	33
Total	122	115

The highest paid Director did not exercise share options during the year. (2021: The highest paid Director did exercise share options during the year).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

27. Contingencies and commitments

Tax authorities

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. Lloyds Banking Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £58.2 million (including interest). The Company, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Other legal actions and regulatory matters

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

28. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2022 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 'Insurance Contracts'[1]	IFRS 17 'Insurance Contracts' replaces IFRS 4 'Insurance Contracts' and is effective for annual periods beginning on or after 1 January 2023. The Company's initial application date was 1 January 2023 and its transition date was 1 January 2022. Under IFRS 17, there is the option to follow a simplified approach rather then the general model for short term contracts. The Company writes short term contracts and the simplified approach was taken and the Premium Allocation was applied. The insurance revenue recognised in profit or loss in the period reflects the expected premium received during the period, after adjusting for the time value of money and the effect of financial risk excluding any investment components. The amortisation of insurance acquisition cash flows is taken to profit or loss on the basis of the passage of time. On transition, the Company will use the full retrospective approach for business as it will adopt the Premium Allocation Approach, given the short duration of contracts written by the Company. *Comparative information* As permitted by IFRS 17, the Company's financial statements for the year ended 31 December 2023 will include restated comparatives for the year ended 31 December 2022 only. Comparative information for the year ended 31 December 2021 will be presented in accordance with IFRS 4.	Annual periods beginning on or after 1 January 2023

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

28. Future accounting developments (continued)

IFRS 17 'Insurance Contracts'[1] (continued)

IFRS 17 recognition and measurement

Applying the Premium Allocation Approach for the Company's insurance contracts, requires, upon initial recognition, the liability for remaining coverage to be calculated as the premiums received at initial recognition less any insurance acquisition cash flows at that date. Following initial recognition, the carrying amount for liability for remaining coverage is based on the carrying value at the start of the period, adjusted for acquisition costs incurred in the period and amounts recognised in the income statement for coverage provided in the period. The liability for incurred claims is calculated based on best estimates of fulfilment cashflows, discounted, with the additional of a risk adjustment.

Establishing cash flows within the boundary of an insurance contract

IFRS 17 requires cash flows to be included within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period where the Company can compel a policyholder to pay premiums or where the Company has a substantive obligation to provide the policyholder with services. The Company has assessed the contract boundary for insurance contracts it sells and has established relevant fulfilment cash flows accordingly, and the assumption framework which applies to determining the best estimate of those cash flows on an on-going basis. The contracts written are short term and the coverage period of each contract (including insurance contract services arising from all premiums within the contract boundary determined) is one year or less.

Level of aggregation of insurance contracts

IFRS 17 requires identification of portfolios of insurance contracts that have similar risks and that are managed together. In determining the appropriate level of aggregation, the Company has considered the relative risks and how these are managed within the business.

Expected impact: comparison with IFRS 4

Under IFRS 4, the Company recognises unearned premium reserves to reflect liabilities for remaining coverage and claims reserves to reflect the expected cost of incurred and incurred but not reported claims. These reserves are undiscounted. Under IFRS 17, the Premium Allocation Approach will be used as the coverage period of contracts issued by the Company is one year or less.

The liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs and amounts already recognised as insurance revenue at the balance sheet date. The unearned premiums reserve is unchanged under IFRS17 and remains undiscounted as the coverage period of contracts issued by the Company is one year or less.

A proportion of acquisition costs is deferred under IFRS17. The deferral covers a wider range of acquisition costs compared to IFRS 4, given the IFRS 17 requirements to specifically attribute a proportion of overheads to acquisition costs. In addition the deferral period is now extended from the contract length to the anticipated average retention period of a contract holder.

Further, the General Model is applied in determining the measurement of onerous groups of contracts, where the loss component valued is debited to the income statement in the year of contract issuance.

Balance sheet impact at 1 January 2022

The increase in the Company's total equity was approximately £3 million as result of adopting IFRS 17. The value of the liability for remaining coverage of all insurance contracts issued and reinsurance contracts held at 1 January 2022 was approximately £3 million. Deferred acquisition costs at 1 January 2022 were approximately £1 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

28. Future accounting developments (continued)

IFRS 17 'Insurance Contracts'[1] (continued)	*Income statement impact* Whilst IFRS 17 does not change the total profit recognised over the life of an insurance contract, it does change both the phasing of profit recognition and the amounts recognised within individual income statement line items. The structure of the primary statements will change and IFRS17-related line items will be introduced to capture all movements and positions in line with the standard. The Company continues to refine and finalise the new accounting processes and models and has not, therefore, presented the impact of IFRS 17 for the year ended 31 December 2022. Further work will be undertaken during 2023 to finalise the impact of IFRS 17 on the Group's income statement for the year ended 31 December 2022 and on its balance sheet at 31 December 2022.	
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications: • A change in accounting estimate that results from new information or new developments is not the correction of an error • The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors The amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2023
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 and in later years (including IAS12 Income taxes and IAS1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2023 and later years

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

29. Post balance sheet events

There are no post balance sheet events affecting the Company that require disclosure for the year ending 31 December 2022.