03104671

St Andrew's Insurance plc

Annual Report and Accounts
2023

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

J S Wheway (Chair)

A J Reizenstein
C Barua*
C J G Moulder
D L Davis
G E Schumacher
J K Harris
M H Cuhls
K A Cooper
S T Nyahasha*
W L D Chalmers

* denotes Executive Director

Company Secretary

J M Jolly

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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 2023.

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 IP&I 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 the IP&I Division. To support this, the Company is focused on the following key performance indicators:

- Insurance revenue
- Insurance service expense
- Combined ratio
- Solvency II Regulatory capital
- Liquidity position

Principal activities

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

Result for the Year

The result for the year ended 31 December 2023 is a profit after tax of £5 million (2022: £14 million restated*).

The decrease in profit is driven by the run-off of the home business following the sale of the legacy home products customer book of business to a fellow subsidiary company, Lloyds Bank General Insurance Limited in 2021. No home business is now transacted by the Company.

*See note 1 for details regarding the restatement.

IFRS 17 Insurance Contracts

In these financial statements, the Company has applied IFRS 17 for the first time. IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023. The Company has adopted a fully retrospective approach and has restated comparative information for 2022.

The opening balance sheet for 1 January 2022 has been restated and the impact of transition to IFRS 17 is an increase in the Company’s total equity of £3 million, largely driven by changes to the measurement of Insurance Contract Liabilities under IFRS 17.

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.

Further detail on the nature of the changes in accounting policies are set out in note 1.

Economic Environment

The UK economy saw modest but resilient performance in 2023, with initial estimates indicating growth of 0.1 per cent. This was despite a large increase in interest rates intended to prevent elevated inflation after the surge in global energy and food prices caused in large part by Russia's invasion of Ukraine. While inflation fell in the second half of 2023, the cost of living squeeze is still ongoing, with energy prices still around 50 per cent higher than in 2021 and food prices broadly 30 per cent higher. Government support protected households from some of the impact across 2022 and 2023, but this is not planned to continue through to 2024. Also, interest rate rises to date have not yet had their full impact, with many households yet to refinance fixed-rate mortgages at higher rates. The UK economy in 2024 is thus expected to echo its 2023 growth performance, but there are of course risks to this view, not least via consequences of any escalation of wars in Ukraine or the Middle East.

STRATEGIC REPORT (continued)

Economic Environment (continued)

In line with Lloyds Banking Group's purpose of Helping Britain Prosper and a clear customer focus, Lloyds Banking Group are helping people and businesses finance their ambitions and growth whilst proactively 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 is aligned to best practice outlined by the Climate Financial Risk Forum (CFRF). In previous years the Company was included in a TCFD aligned report at the intermediate parent entity level, Scottish Widows Group Limited (SWG). From this year onwards, the Company is included in the LBG Sustainability Report. This report is available on the LBG website at www.lloydsbankinggroup.com/investors/esg-information.

Key performance indicators

Insurance revenue

Insurance revenue has decreased by 73 per cent to £13 million in 2023 (2022: £47 million). The decrease reflects the run-off of both the home and creditor books.

Insurance service expense

Insurance service expense has decreased by 69 per cent to £9 million in 2023 (2022: £29 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 increased to 77 per cent (2022: 69 per cent restated). This is predominately due to the earned premium running off faster than costs following the back book migration initiative.

Solvency II

During the year, the Company has delivered Solvency II reporting including full annual quantitative reporting as at 31 December 2022, 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 2023, the Company reported publicly through a Group SFCR for Scottish Widows Group Limited. The next SFCR will be published in April 2024, in relation to the year ending 31 December 2023.

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 £35 million (2022: £125 million).

The Solvency II ratio for the Company is 209 per cent (2022: 513 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 21.

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 2023, the Company had liquidity coverage of 166 per cent (2022: 262 per cent). Liquidity coverage is defined as the comparison of available liquid assets, net of known cash flows, against 1-in-200 scenario liquidity risks. Liquidity methodology and reporting is compliant with Solvency II.

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.

STRATEGIC REPORT (continued)

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 21.

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.

Following the back book migration initiative the Company continues 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 21, as shown by the note reference.

Financial risks

Principal Risk	Note reference	Description
Market risk	21(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	21(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	21(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	21(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	21(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.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

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.

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.

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

In accordance with the Companies Act 2006 (the ‘Act’) (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this Statement, which describes the ways in which they have had regard to the following 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 in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018). 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.

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

How the Board has discharged its Section 172 duties

The Directors, on appointment (as part of 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 IP&I Executive Committee (IP&IExCo)) which enables him to make informed decisions about the operations of the Company’s business.

The Chief Executive and management 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 9 to 12 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 a key consideration in 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.

The Board reviews the performance of its customer propositions within a cycle of in-depth reviews and debates matters particular to each proposition. Board review, discussion and challenge in 2023 has covered;

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

The Board also monitored customer impacts from the cost of living crisis and customer behaviours to inform how best to support customers. The Board, supported where appropriate by various committees (including the Independent Governance Committee) challenges management from the perspective of the customer.

The Board’s Risk Oversight Committee (“ROC”) monitors the operational performance of customer services, including both those services delivered in-house and the performance of third-party service partners. 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.

STRATEGIC REPORT (continued)

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

Consumer Duty

During the year, the Board continued to embed the Company's implementation of the Financial Conduct Authority's (FCA) Consumer Duty regime. This aims to 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.

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 relevant to how consumer duty is being embedded into decision-making.

Technology

The Board has taken steps to make sure the Company continues to respond to customer demand for digitised customer journeys. Whilst committed to digitisation, the Board acknowledges the need to retain telephony for certain customer experiences and for customers who may have a particular need, including those with a vulnerability.

Helping Britain Prosper

Lloyds Banking Group's purpose is Helping Britain Prosper. It does this by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Lloyds Banking Group continues to invest significantly in the development of its IP&I business, of which the Company forms part, with the aim of becoming Britain's preferred financial partner for pensions and financial planning, helping to enable households' financial health and resilience and meeting more of Lloyds Banking Group's customers' financial needs, increasingly with carbon neutral investments. 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 2023, available on the Lloyds Banking Group website, at https://www.lloydsbankinggroup.com/investors/annual-report.html

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its IP&I business unit. As a wholly owned subsidiary 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 2023.

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 Company's Board throughout 2023. The Board of the Company also welcomed the Chief Executive Officer of Lloyds Banking Group joining one of its meetings during 2023, for a discussion of Company strategy in the context of contemporary issues in the Company's commercial environment.

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. The amount (where relevant) of dividend paid in the year to the Company's parent, is reported in the Directors' Report.

Communities and the environment

With the embedding of sustainability issues into the Company's business as usual activities, the Insurance Sustainability Committee was disbanded in 2023 and in its place an Investments Committee was established. The Investment Committee is responsible for reviewing the Scottish Widows Responsible Investment and Stewardship Framework and responsible investment generally. The Insurance Audit Committee has taken on responsibility for oversight of 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 at: https://www.scottishwidows.co.uk/about_us/responsibleinvestment/information-hub/.

The Chairs of the Investment Committee and the Insurance Audit Committee report regularly to the Board on proceedings after each meeting on all matters within its duties and responsibilities.

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds is reserved to the Board. The IP&I Risk Oversight Committee on behalf of the Board considers the Company's management of climate risk, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

STRATEGIC REPORT (continued)

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

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board recognises the need to ensure its membership reflects the diversity of modern Britain and is inclusive. The Board aims to comply with Lloyds Banking Group's policy on diversity (pro-rated for the respective size of each Board). This means that, for gender diversity, the Board aims to maintain membership of at least three female Board members. At 31 December 2023, the Board met that expectation. 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 maintains 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 September 2023 the Board invited representatives from the Prudential Regulation Authority to join its meeting 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 the key areas of regulatory focus to management and the Board with monitoring or regulatory actions in place.

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 supplier arrangements within Lloyds Banking Group for certain services. The Board delegates to management the primary responsibility of oversighting those relationships, while recognising that they are integral to the Company's future success. Throughout 2023 the Board has held management to account for the performance of supplier relationships, including for third-party provision of customer servicing.

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 individual Company within Lloyds Banking Group. 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 strategy and governance of its organisations. Reducing suppliers' emissions is a key component of its sustainability strategy. Lloyds Banking Group's Emerald Standard asks suppliers to work towards and 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.

Further information on Lloyds Banking Group's approach to human rights and modern slavery is available in the Human Rights Policy and Modern Slavery Statement, published on its website and covers all subsidiary companies. The Board (or one of its committees) reviews these statements on an annual basis.

STRATEGIC REPORT (continued)

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

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

S T Nyahasha

28 March 2024

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 2023 is a profit after tax of £5 million (2022: £14 million).

The decrease in profit is driven by the run-off of the home business following the sale of the legacy home products customer book of business to a fellow subsidiary company, Lloyds Bank General Insurance Limited in 2021. No home business is now transacted by the Company.

During the year, an interim dividend of £90 million was paid on the ordinary shares in respect of 2023 (2022: £25 million).

Post balance sheet events

Further information on post balance sheet events is set out in note 25.

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:

A Lorenzo	(Resigned 30 May 2023)
C Barua	(Appointed 31 May 2023)
J C S Hillman	(Resigned 31 August 2023)
J K Harris	(Appointed 29 September 2023)
S J O'Connor	(Resigned 30 September 2023)
M R Downie	(Appointed 1 September 2023 / Resigned 15 January 2024)
M H Cuhls	(Appointed 1 January 2024)
S T Nyahasha	(Appointed 15 January 2024)
K A Cooper	(Appointed 1 March 2024)

Particulars of the Directors' emoluments are set out in note 22.

Directors' indemnities

Lloyds Banking Group has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third-party indemnity provisions' for the purposes of the Companies Act 2006. The deed was 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 indemnity during that period of service.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group. In addition, the Company 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 24.

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 21, 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 21 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 12, and the Directors' Report on pages 13 to 14 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

S T Nyahasha

28 March 2024

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 2023 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 cashflows;
- the statement of changes in equity; and
- the notes to the financial statements 1 to 25, except the information on regulatory capital marked as "unaudited" in note 21(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 matters (KAMs) that we identified in the current year were: • Valuation of insurance contract liabilities • Initial adoption of IFRS 17 Within this report, key audit matters are identified as follows: Newly identified Similar level of risk
Materiality	The materiality that we used in the current year was £2.1 million (2022: £4.6 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.
Significant changes in our approach	In the prior year, the KAM on valuation of insurance liabilities focused specifically on the Subsidence and Escape of Water 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, models and key assumptions employed when valuing the insurance reserves relating to the Subsidence peril within the Household book. Additionally, due to the adoption of IFRS 17: Insurance Contracts which replaced the existing standard for insurance contracts in January 2023, a new key audit matter has been identified in the current year.

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 Own Risk and Solvency Assessment ("ORSA") to support our understanding of the key risks faced by the company in its ability to continue as a going concern. The company is a subsidiary of Scottish Widows Group, and its results are included in group ORSA;
- 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;
- evaluating the appropriateness of going concern disclosures; and
- performing sensitivity analysis in relation to going concern to assess 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 contract 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 have limited the key audit matter to the Subsidence peril within the Household book. There is a significant level of judgement applied in the methodology, models and key assumptions employed when valuing the insurance reserves relating to Subsidence peril. The total insurance contract liabilities is £23 million (2022: £41 million). Subsidence is 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. Refer to Note 3 'Critical accounting judgements and key sources of estimation uncertainty'; Note 2(n) 'Accounting Policies'; and Note 14 '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 assumptions, methodology and models used by management in estimating the insurance contract 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 peril within the Household book; • assessed the reasonableness of any differences noted between our independent projection and the company's results; • tested the reconciliation of paid and incurred claims development data to the claims administration system and general ledger; and • evaluated paid, incurred and outstanding case reserves by reviewing 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 contract liabilities for Subsidence peril, are reasonable.

5.2. Initial adoption of IFRS 17

Key audit matter description	On 1 January 2023, the company transitioned to IFRS 17 Insurance Contracts ("IFRS 17"). This new accounting standard replaced the existing standard for insurance contracts, IFRS 4 '*Insurance Contracts*'. The company's financial statements for the year ended 31 December 2023 are the company's first set of financial statements to include the adoption of the new standard including the retrospective application to the preceding period. We have concluded the adoption of IFRS 17 a key audit matter as this is a new and complex accounting standard which has required judgment and interpretation in its implementation, specifically around insurance acquisition cost deferral, discounting of liabilities for incurred claims and risk adjustment. Furthermore, the new standard has introduced a number of significant changes, including new requirements regarding presentation of insurance contracts and related account balances and classes of transactions. This resulted in an increased extent of audit effort, including the involvement of actuarial specialists. The company has disclosed in note 1 that it adopted the full retrospective approach on transition to IFRS 17 and applied the Premium Allocation Approach ("PAA") to the measurement of groups of insurance contracts issued and groups of reinsurance contracts held. In order to meet the requirements of the new standard, significant changes have also been made to the company's processes and controls.

How the scope of our audit responded to the key audit matter	We have performed the following procedures: • We obtained an understanding of the relevant controls governing management's retrospective application of IFRS 17 to the preceding period and adoption in the current period. • We challenged the appropriateness of key technical accounting decisions, judgements, assumptions and elections made by management. • We assessed compliance with the requirements of the standard by engaging with our actuarial specialists to evaluate the company's IFRS 17 calculation models, including those related to insurance acquisition cost deferral, discounting of liabilities for incurred claims and risk adjustment. • We evaluated the incremental data and other information required for IFRS 17 calculations including the derived yield curves for IFRS 17 calculations. • In order to test the company's IFRS 17 position as at 31 December 2022, we tested the journal entries resulting from the IFRS 17 model outputs and other adjustments. • We reviewed the company's financial statement disclosures to assess compliance with the presentation requirements of IFRS 17.
Key observations	We are satisfied that the company's insurance contracts are appropriately recognised under IFRS 17.

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

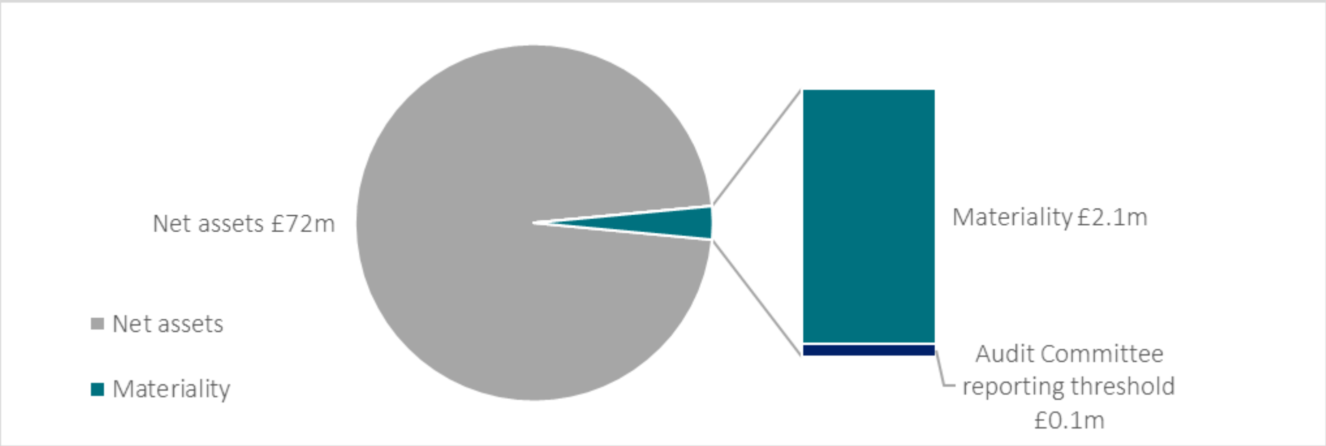
6. Our application of materiality

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	£2.1 million (2022: £4.6 million)
Basis for determining materiality	3% of net assets (2022: 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 2023 audit (2022: 65%). 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;

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.

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 £0.1 million (2022: £0.2 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 obtained understanding of the entity's end-to-end financial reporting processes supporting all in-scope financial statement balances. This included obtaining an understanding of relevant controls on key business processes such as reserving, premiums and claims. We identified key IT systems that were relevant to the audit, and involved our internal IT specialists to support our testing of general IT controls over these systems.

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

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; and
- 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, the directors and the Insurance Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- 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 contract 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 contract liabilities as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to 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 the FCA and 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 20 May 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 three years, covering the years ended 31 December 2021 to 31 December 2023.

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

28 March 2024

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	Restated* 2022 £'000
Insurance revenue	4	12,855	47,474
Insurance service expense	5	(8,980)	(28,882)
Insurance service result before reinsurance contracts held		3,875	18,592
Allocation of reinsurance premiums		2	(1,919)
Amounts recoverable/(payable) from reinsurers for incurred claims*		(209)	767
Net expenses from reinsurance contracts		(207)	(1,152)
Insurance service result		3,668	17,440
Investment income		4,794	2,190
Net gain/(loss) on assets and liabilities at fair value through profit or loss		182	(153)
Total investment income	6	4,976	2,037
Net finance (expense)/income from insurance contracts		(743)	793
Net finance income/(expense) from reinsurance contracts		16	(63)
Net insurance financial result	6	4,249	2,767
Other operating expenses	7	(889)	(2,558)
Profit before tax		7,028	17,649
Taxation expense*	9	(1,705)	(3,229)
Profit for the year		5,323	14,420

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 26 to 68 are an integral part of these financial statements.

*See note 1 for details regarding the restatement.

BALANCE SHEET AS AT 31 DECEMBER 2023

	Note	2023 £'000	Restated* 2022 £'000	Restated* 1 January 2022 £'000
ASSETS				
Reinsurance contract assets*	15	476	745	490
Financial assets:				
Loans and receivables at amortised cost*	10	6,078	4,339	3,540
Investments at fair value through profit or loss	11	31,062	98,160	97,372
Cash and cash equivalents	12	60,034	98,721	129,989
Total assets		97,650	201,965	231,391
EQUITY AND LIABILITIES				
Capital and reserves attributable to the Company's equity shareholder				
Share capital	13	31,000	31,000	31,000
Retained profits*		41,150	125,827	136,407
Total equity		72,150	156,827	167,407
Liabilities				
Insurance contract liabilities*	14	23,190	40,844	52,500
Reinsurance contract liabilities	15	6	31	—
Deferred tax liabilities	16	—	401	861
Current tax liabilities	16	2,106	3,689	9,036
Financial liabilities:				
Other financial liabilities*	17	198	173	1,587
Total liabilities		25,500	45,138	63,984
Total equity and liabilities		97,650	201,965	231,391

The notes set out on pages 26 to 68 are an integral part of these financial statements.

*See note 1 for details regarding the restatement.

The financial statements on pages 22 to 68 were approved by the Board on 28 March 2024 and signed on behalf of the Board:

S T Nyahasha

28 March 2024

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	Restated* 2022 £'000
Cash flows from operating activities			
Profit before tax*		7,028	17,649
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	6	(4,976)	(2,037)
Net increase in operating assets and liabilities*	18	(19,124)	(14,093)
Taxation paid		(3,689)	(9,036)
Net cash flows (used in) operating activities		(20,761)	(7,517)
Cash flows from investing activities			
Net decrease/(increase) of investments at fair value through profit or loss		67,280	(941)
Interest received	6	4,794	2,190
Net cash flows generated from investing activities		72,074	1,249
Cash flows from financing activities			
Dividends paid	19	(90,000)	(25,000)
Net cash flows (used in) financing activities		(90,000)	(25,000)
Net decrease in cash and cash equivalents		(38,687)	(31,268)
Cash and cash equivalents at the beginning of the year		98,721	129,989
Net cash and cash equivalents at the end of the year	12	60,034	98,721

The notes set out on pages 26 to 68 are an integral part of these financial statements.

*See note 1 for details regarding the restatement.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 31 December 2021, as previously reported		31,000	133,569	164,569
Impact of initial application of IFRS17		—	2,838	2,838
Balance as at 1 January 2022 Restated*		31,000	136,407	167,407
Profit for the year and total comprehensive income restated			14,420	14,420
Dividend paid	19		(25,000)	(25,000)
Balance as at 31 December 2022 Restated*		31,000	125,827	156,827
Profit and total comprehensive income for the year			5,323	5,323
Dividend paid	19		(90,000)	(90,000)
Balance as at 31 December 2023		31,000	41,150	72,150

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 21.

The notes set out on pages 26 to 68 are an integral part of these financial statements.

*See note 1 for details regarding the restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Changes in accounting policies and disclosures

New and amended standards and interpretations

In these financial statements, the Company has applied IFRS 17 for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023. The Company has adopted a fully retrospective approach and has restated comparative information for 2022 applying the transitional provisions in Appendix C to IFRS 17. The nature of the changes in accounting policies can be summarised, as follows:

Changes to classification and measurement

The adoption of IFRS 17 did not change the identification of the Company's insurance contracts.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

Under IFRS 17, the Company's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach (PAA) as outlined within note 2(n). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

Changes to presentation and disclosure

For presentation in the statement of financial position, the Company aggregates insurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance issued that are liabilities
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements. Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

The line item descriptions in the statement of comprehensive income have been changed significantly compared with last year. Previously, the Company reported the following line items:

- Gross earned premiums
- Premiums net of reinsurance
- Claims and loss adjustment costs
- Claims and loss adjustment costs recoverable from reinsurers

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Changes in accounting policies and disclosures (continued)

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

The Company provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying the standard

Transition

On transition date, 1 January 2022, the Company:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied
- Has identified, recognised and measured assets for insurance acquisition cash flows as if IFRS 17 has always applied. However no recoverability assessment was performed before the transition date. At transition date, a recoverability assessment was performed and no impairment loss was identified
- Derecognised any existing balances that would not exist had IFRS 17 always applied
- Recognised any resulting net difference in equity

Set out below is the Company’s balance sheet at 1 January 2022, prepared in accordance with the applicable accounting policies following the adoption of IFRS 17.

		IFRS4			IFRS17
	Note	As at 31 Dec 2021	Remove IFRS4	Add IFRS17	Adjusted as at 1 Jan 2022
		£’000	£’000	£’000	£’000
ASSETS					
Deferred costs	A	918	(918)	—	—
Reinsurance assets	B	1,910	(1,910)	—	—
Reinsurance contracts assets	B	—	—	490	490
Loans and receivables at amortised cost	C	53,821	(50,281)	—	3,540
Investments at fair value through profit or loss		97,372	—	—	97,372
Cash and cash equivalents		129,989	—	—	129,989
Total assets		284,010	(53,109)	490	231,391

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Changes in accounting policies and disclosures (continued)

	Note	IFRS4 As at 31 Dec 2021	Remove IFRS4	Add IFRS17	IFRS17 Adjusted as at 1 Jan 2022
		£'000	£'000	£'000	£'000
EQUITY AND LIABILITIES					
Share capital		31,000	—	—	31,000
Retained profits		133,569	52,140	(49,302)	136,407
Total equity		164,569	52,140	(49,302)	167,407
LIABILITIES					
Insurance contracts	D	94,058	(94,058)	—	—
Insurance contract liabilities	D	—	—	52,500	52,500
Current tax liabilities		9,036	—	—	9,036
Deferred tax liabilities	E	—	—	861	861
Provisions for other liabilities and charges	F	2,099	(2,099)	—	—
Accruals	F	502	(502)	—	—
Other financial liabilities	G	13,746	(12,159)	—	1,587
Total liabilities		119,441	(108,818)	53,361	63,984
Total equity and liabilities		284,010	(56,678)	4,059	231,391

Notes

A. Deferred acquisition costs on an IFRS 4 basis are derecognised as these are now recognised as part of liabilities arising from insurance contracts on an IFRS 17 basis.

B. Reinsurance assets on an IFRS 4 basis are derecognised and reinsurance contract assets are recognised on an IFRS 17 basis.

C. Premium debtors on an IFRS 4 basis are derecognised as these are now recognised as part of liabilities arising from insurance contracts on an IFRS 17 basis. The balance remaining within loans and receivables at amortised cost is in relation to Investment income receivable and premiums receivable from intermediary.

D. The IFRS 4 value of liabilities arising from insurance contracts is removed. Liabilities arising from insurance contracts on an IFRS 17 basis are recognised.

E. Deferred tax liabilities are recognised in respect of differences in retained earnings between IFRS 4 and IFRS 17.

F. Provisions for other liabilities and accruals are derecognised as these are now recognised as part of liabilities arising from insurance contracts due to meeting the criteria of a fulfilment cashflow on an IFRS 17 basis.

G. Other financial liabilities relating to the issue of insurance contracts are derecognised and now recognised as part of liabilities from insurance contracts due to meeting the criteria of a fulfilment cashflow on an IFRS 17 basis. The balance remaining relates to the element of related party payables that is in respect of non-attributable expense.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. 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 2023

Details of standards and interpretations in issue but which have not been adopted early are set out at note 24.

(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 2023

2. 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 the 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 21. 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

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. For the periods presented, all revenue has been recognised on the basis of the passage of time.

Insurance revenue includes adjustments for any differences between premiums recorded in prior years and amounts ultimately received.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. 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.

(e) Expense recognition

Claims and loss adjustment costs

Claims and loss adjustment costs, 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 third parties where the 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.

Claims and loss adjustment costs are recognised in the statement of comprehensive income within insurance service expenses.

Operating expenses

Commissions and other acquisition costs are recognised through the statement of comprehensive income, within insurance service expenses.

Other operating expenses are recognised in the statement of comprehensive income as incurred, within insurance service expense if directly attributable to the fulfilment of insurance contracts or within other operating expenses if non-attributable.

(f) Reinsurance contract balances

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 reinsurance insurance contracts.

The contract boundary for all reinsurance contracts is one year and therefore qualifies for the PAA.

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 (j).

Allocation of reinsurance premiums and amounts recoverable/(payable) from reinsurers for incurred claims 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.

(g) 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.

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 (j).

Where policyholder premiums are yet to be remitted by intermediaries, these premiums are treated as received within the LRC with a separate financial asset recognised for the amounts due from intermediaries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting policies (continued)

(h) Investments at fair value through profit or loss

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

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 2(c) Fair value methodology and note 21 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.

(i) 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.

(j) Impairment

Financial assets

An impairment charge in the statement of comprehensive income would include 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 2023

2. Accounting policies (continued)

(j) 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.

(k) 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 2023

2. Accounting policies (continued)

(k) 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.

(l) 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.

(m) Dividends payable

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

(n) Insurance and reinsurance 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.

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 reinsurance contract assets.

Recognition and measurement

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

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.

The Company does not issue any contracts with direct participating features.

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 on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

Separating components from insurance and reinsurance contracts

The Company assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. Currently, the Company's products do not include any distinct components that require separation, therefore, IFRS 17 is applied to all components of the insurance contract.

None of the reinsurance contracts issued contain profit commission arrangements.

Recognition

The Company recognised groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

The Company recognised a group of reinsurance contracts held from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. (However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Company recognised an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

Measurement – Premium Allocation Approach

The table below shows the accounting policy choices available to the Company under the PAA and outlines the approach adopted by the Company and reasons for selection:

	IFRS 17 Options	*Adopted Approach*
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model.	The coverage period for home insurance is one year and therefore automatically qualifies for the PAA. Creditor Insurance contracts are multi-year contracts but with an annual re-pricing option so therefore are treated as annual contracts. The contract boundary for all reinsurance contracts is one year and therefore qualifies for the PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group.	For all business, insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the expected average retention period of the contracts related to the group.
Liability for Remaining Coverage (LRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LRC.	For all business, there is no allowance for the time value of money as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is permitted but not required to adjust these amounts for the time value of money.	For all business, the Company adjusts the future cash flows for the time value of money for incurred claims.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LIC resulting from changes in discount rates and present this in OCI.	For all business, the change in LIC as a result of changes in discount rates will be captured within profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

Insurance contracts – initial measurement

The Company applies the Premium Allocation Approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- For contracts longer than one year, the Company has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Company has also considered qualitative factors such as the nature of the risk and types of its lines of business.

Liability for remaining coverage

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date,
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

The liability for remaining coverage is not discounted to reflect the time value of money or the effect of financial risk as the premiums are received within one year of the coverage period.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

Reinsurance contracts held – initial measurement

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The Company uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

Insurance contracts – subsequent measurement

(i) Liability for remaining coverage

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows,
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Minus the amount recognised as insurance revenue for the services provided in the period

Any subsequent change in the loss component established by the Company is recognised within insurance service expense.

(ii) Liability for incurred claims

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment). For all business, the Company adjusts the future cash flows for the time value of money for incurred claims. The Sterling overnight index average (SONIA) risk free yield curve is used. No illiquidity premium adjustment has been made to the risk free rate, given the short duration of the underlying insurance contracts underwritten.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance revenue).

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Company has established a loss-recovery component, the Company subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Level of aggregation

IFRS 17 requires a company to determine the level of aggregation for applying its requirements. The Company previously applied aggregation levels under IFRS 4, which were higher than the level of aggregation required by IFRS 17. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant probability of becoming onerous, and the remainder.

IFRS17 requires insurers to group their contracts for the purposes of reporting into portfolios consisting of:

- Contracts with similar risk characteristics and where similar risks managed together.
- Contracts written no more than one year apart

The Company has elected to aggregate into home and creditor.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

The portfolios are further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (if any)
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any)
- A group of the remaining contracts in the portfolio (if any)

The profitability of groups of contracts is assessed by models that take into consideration existing and new business. As permitted under the PAA, the Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
    - The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio
    - The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Company uses a systematic and rational method to allocate:

i. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts:
    - to that group; and
    - to groups that include insurance contracts that are expected to arise from the renewals of the insurance contracts in that group.
ii. Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts that are not directly attributable to a group of contracts, to groups in the portfolio.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(n) Insurance and reinsurance contracts (continued)

Insurance contracts – modification and derecognition

The Company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired); or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

Presentation

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

The Company disaggregates the total amount recognised in the statement of comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Company does not disaggregate the change in risk adjustment for non-financial risk between the insurance service result and insurance income or expenses and includes the entire change as part of the insurance service result.

The Company separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

Loss-recovery components

As described in paragraphs relating to “Reinsurance Contracts – Subsequent Measurement”. above, where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The impact of changes in market interest rates on the value of the insurance assets and liabilities is reflected in the statement of comprehensive income.

Net income or expense from reinsurance contracts held

The Company presents separately on the face of the statement of comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Accounting Policies (continued)

(o) 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.

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.

Where the provision is in relation to the fulfillment of an insurance contract they are reported within insurance contract liabilities as a liability for incurred claims.

(p) 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.

Where liabilities are in relation to the fulfillment of an insurance contract they are reported within insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. 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 20.

b. Critical accounting 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.

4. Insurance Revenue

	2023 £'000	2022 £'000
Insurance revenue	12,855	47,474
Total	12,855	47,474

5. Insurance service expense

	2023 £'000	2022 £'000
Incurred claims and other directly attributable expenses	11,107	31,922
Adjustments to liabilities for incurred claims	(2,232)	(3,040)
Losses and (reversals) of losses on onerous contracts	105	—
Total	8,980	28,882

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

6. Total investment income and net insurance finance income/expenses

The table below presents an analysis of net investment income and net insurance finance income/expenses recognised in profit or loss in the period:

	2023 £'000	2022 £'000
Investment income		
Net gains/(losses) on financial instruments designated as at FVTPL	182	(153)
Interest revenue on financial assets not measured at FVTPL	4,794	2,190
Total investment income	4,976	2,037
Net Insurance finance (expenses)/income from insurance contracts		
Interest accreted	(743)	793
Total Net Insurance Finance Expenses from insurance contracts	(743)	793
Net finance income from reinsurance contracts		
Interest accreted	16	(63)
Net finance income from reinsurance contracts	16	(63)
Total	4,249	2,767

7. Other operating expense

	2023 £'000	2022 £'000
Other operating expenses	889	2,558
Total	889	2,558

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 2023 expenses recharged to the Company were £3.2 million (2022: £9.9 million) of which £2.3 million (2022: £7.3 million) of costs were allocated to insurance service expense.

The Company had no direct employees during the year (2022: nil). Employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

8. Auditor's remuneration

	2023 £'000	2022 £'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	368	242
Total fees payable	368	242

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 2023

9. Taxation expense

(a) Current year tax expense

	2023 £'000	Restated* 2022 £'000
Current tax:		
Current tax on taxable profit for the year	2,106	3,689
Adjustment in respect of prior years	—	—
Total current tax	2,106	3,689
Deferred tax:		
Origination and reversal of timing differences*	(454)	(336)
Impact of deferred tax rate change*	53	(124)
Total deferred tax	(401)	(460)
Total income tax expense	1,705	3,229

(b) Reconciliation of tax expense

	2023 £'000	Restated* 2022 £'000
Profit before tax	7,028	17,649
Tax (expense) thereon at UK corporation tax rate of 23.5% (2022: 19.0%)	(1,652)	(3,353)
Effects of:		
Remeasurement of deferred tax due to rate change*	(53)	124
Total	(1,705)	(3,229)

The effective tax rate for the year is 24.3 per cent (2022: 18.3 per cent).

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

*See note 1 for details regarding the restatement.

10. Loans and receivables at amortised cost

	2023 £'000	Restated* 2022 £'000
Due from related parties*	5,825	3,962
Investment income receivable	253	377
Total	6,078	4,339

All of the above loans and receivables at amortised cost are expected to be received within one year of the reporting date. The amount due from related parties is in respect of premiums receivable from St Andrew's Group Limited (STAG).

*See note 1 for details regarding the restatement.

11. Investments at fair value through profit or loss

	2023 £'000	2022 £'000
Collective Investment Schemes - unlisted	31,062	98,160
Total	31,062	98,160

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 12) are investments in unconsolidated structured entities of £61.0 million (2022: £164.0 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

12. Cash and cash equivalents

	2023 £'000	2022 £'000
Cash at bank and in hand	29,958	32,989
Investments held through liquidity funds	30,076	65,732
Total	60,034	98,721

13. Share capital

	2023 £'000	2022 £'000
Issued and fully paid share capital:		
31,000,000 (2022: 31,000,000) ordinary shares of £1 each	31,000	31,000
Total	31,000	31,000

14. Insurance contracts

1. Summary of insurance and reinsurance contract assets and liabilities

The table below sets out the carrying amounts of portfolios of insurance and reinsurance contract assets and liabilities at the end of reporting date:

	2023			2022		
	£'000	£'000	£'000	£'000	£'000	£'000
	Home	*Creditor*	*Total*	*Home*	*Creditor*	*Total*
Insurance contracts						
Insurance contract liabilities:						
- Insurance contract balances	18,396	4,794	23,190	34,373	6,471	40,844
Total	18,396	4,794	23,190	34,373	6,471	40,844
Reinsurance contracts						
Reinsurance contract assets	476	—	476	745	—	745
Reinsurance contract liabilities	(6)	—	(6)	(31)	—	(31)
Total	470	—	470	714	—	714

The reconciliation of insurance contract balances is disclosed within note 14.2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims

(a) Total insurance contract liabilities

The roll-forward of the gross asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for total insurance contract liabilities is disclosed in the table below:

	2023				
	Liabilities for remaining coverage		**Liabilities for incurred claims**		
£'000	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	**Total**
Insurance contract liabilities as at 1 January 2023	818	—	37,403	2,623	40,844
Insurance revenue	(12,855)	—	—	—	(12,855)
Insurance service expense	—	105	10,426	(1,551)	8,980
Incurred claims and other expenses	—	—	11,006	101	11,107
Changes to liabilities for incurred claims	—	—	(580)	(1,652)	(2,232)
Losses on onerous contracts and (reversals) of losses	—	105	—	—	105
Insurance service result	(12,855)	105	10,426	(1,551)	(3,875)
Insurance finance expense			743		743
Total changes in the statement of comprehensive income	(12,855)	105	11,169	(1,551)	(3,132)
Cashflows					
Premiums received	12,775	—	—	—	12,775
Claims and other expenses paid	—	—	(27,407)	—	(27,407)
Insurance acquisition cash flows	110	—	—	—	110
Total cashflows	12,885	—	(27,407)	—	(14,522)
Gross insurance contract liabilities as at 31 December 2023	848	105	21,165	1,072	23,190

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims (continued)

(a) Total insurance contract liabilities (continued)

2022					
	Liabilities for remaining coverage		**Liabilities for incurred claims**		**Total**
£'000	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	
Insurance contract liabilities as at 1 January 2022	(1,250)	—	50,361	3,389	52,500
Insurance revenue	(47,474)	—	—	—	(47,474)
Insurance service expense	—	—	29,648	(766)	28,882
Incurred claims and other expenses	—	—	31,385	537	31,922
Changes to liabilities for incurred claims	—	—	(1,737)	(1,303)	(3,040)
Losses on onerous contracts and (reversals) of losses	—	—	—	—	—
Insurance service result	(47,474)	—	29,648	(766)	(18,592)
Insurance finance expense			(793)		(793)
Total changes in the statement of comprehensive income	(47,474)	—	28,855	(766)	(19,385)
Cashflows					
Premiums received	48,734	—	—	—	48,734
Claims and other expenses paid	—	—	(41,813)	—	(41,813)
Insurance acquisition cash flows	808	—	—	—	808
Total cashflows	49,542	—	(41,813)	—	7,729
Gross insurance contract liabilities as at 31 December 2022	818	—	37,403	2,623	40,844

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims (continued)

(b) Home insurance

The roll-forward of the gross asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for home insurance product line is disclosed in the table below:

2023	Liabilities for remaining coverage		Liabilities for incurred claims		Total
£'000	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	
Insurance contract liabilities as at 1 January 2023	87	—	31,906	2,380	34,373
Insurance revenue	284	—	—	—	284
Insurance service expense	—	—	5,134	(1,437)	3,697
Incurred claims and other expenses	—	—	5,210	—	5,210
Changes to liabilities for incurred claims	—	—	(76)	(1,437)	(1,513)
Losses on onerous contracts and (reversals) of losses	—	—	—	—	—
Insurance service result	284	—	5,134	(1,437)	3,981
Insurance finance expense			666		666
Total changes in the statement of comprehensive income	284	—	5,800	(1,437)	4,647
Cashflows					
Premiums received	(371)	—	—	—	(371)
Claims and other expenses paid	—	—	(20,253)	—	(20,253)
Insurance acquisition cash flows	—	—	—	—	—
Total cashflows	(371)	—	(20,253)	—	(20,624)
Gross insurance contract liabilities as at 31 December 2023	—	—	17,453	943	18,396

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims (continued)

(b) Home insurance (continued)

£'000	2022 Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	
Insurance contract liabilities as at 1 January 2022	(2,170)	—	37,321	2,564	37,715
Insurance revenue	(34,024)	—	—	—	(34,024)
Insurance service expense	—	—	27,076	(184)	26,892
Incurred claims and other expenses	—	—	21,206	333	21,539
Changes to liabilities for incurred claims	—	—	5,870	(517)	5,353
Losses on onerous contracts and (reversals) of losses	—	—	—	—	—
Insurance service result	(34,024)	—	27,076	(184)	(7,132)
Insurance finance expense			(588)		(588)
Total changes in the statement of comprehensive income	(34,024)	—	26,488	(184)	(7,720)
Cashflows					
Premiums received	35,017	—	—	—	35,017
Claims and other expenses paid	—	—	(31,903)	—	(31,903)
Insurance acquisition cash flows	1,264	—	—	—	1,264
Total cashflows	36,281	—	(31,903)	—	4,378
Gross insurance contract liabilities as at 31 December 2022	87	—	31,906	2,380	34,373

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims (continued)

(c) Creditor insurance contract liabilities

The roll-forward of the gross asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for creditor insurance contract liabilities is disclosed in the table below:

2023					
	Liabilities for remaining coverage		**Liabilities for incurred claims**		**Total**
£'000	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	
Insurance contract liabilities as at 1 January 2023	731	—	5,497	243	6,471
Insurance revenue	(13,139)	—	—	—	(13,139)
Insurance service expense	—	105	5,292	(114)	5,283
Incurred claims and other expenses	—	—	5,796	101	5,897
Changes to liabilities for incurred claims	—	—	(504)	(215)	(719)
Losses on onerous contracts and (reversals) of losses	—	105	—	—	105
Insurance service result	(13,139)	105	5,292	(114)	(7,856)
Insurance finance expense			77		77
Total changes in the statement of comprehensive income	(13,139)	105	5,369	(114)	(7,779)
Cashflows					
Premiums received	13,146	—	—	—	13,146
Claims and other expenses paid	—	—	(7,154)	—	(7,154)
Insurance acquisition cash flows	110	—	—	—	110
Total cashflows	13,256	—	(7,154)	—	6,102
Gross insurance contract liabilities as at 31 December 2023	848	105	3,712	129	4,794

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. Insurance contracts (continued)

2. Reconciliation of insurance balances for liability for remaining coverage and liability for incurred claims (continued)

(c) Creditor insurance contract liabilities (continued)

2022					
	Liabilities for remaining coverage		**Liabilities for incurred claims**		**Total**
£'000	Excluding loss component	Loss Component	Estimates of the present value of future cash flows	Risk adjustment	
Insurance contract liabilities as at 1 January 2022	920	—	13,040	825	14,785
Insurance revenue	(13,450)	—	—	—	(13,450)
Insurance service expense	—	—	2,572	(582)	1,990
Incurred claims and other expenses	—	—	10,179	204	10,383
Changes to liabilities for incurred claims	—	—	(7,607)	(786)	(8,393)
Losses on onerous contracts and (reversals) of losses	—	—	—	—	—
Insurance service result	(13,450)	—	2,572	(582)	(11,460)
Insurance finance expense			(205)		(205)
Total changes in the statement of comprehensive income	(13,450)	—	2,367	(582)	(11,665)
Cashflows					
Premiums received	13,717	—	—	—	13,717
Claims and other expenses paid	—	—	(9,910)	—	(9,910)
Insurance acquisition cash flows	(456)	—	—	—	(456)
Total cashflows	13,261	—	(9,910)	—	3,351
Gross insurance contract liabilities as at 31 December 2022	731	—	5,497	243	6,471

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

15. Reinsurance contract assets and liabilities

The following table shows the reconciliation from the opening to the closing balances of the net asset for the remaining coverage and the assets for incurred claims recoverable from reinsurance:

2023					
£'000	**Liabilities for remaining coverage**		**Liabilities for incurred claims**		**Total**
	Excluding loss component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
Opening assets	—	—	709	36	745
Opening liabilities	(31)	—	—	—	(31)
Net opening balance	(31)	—	709	36	714
Changes in the statement of profit or loss					
Net expenses from reinsurance contracts	2	—	(209)	—	(207)
Net finance income from reinsurance	—	—	(258)	(11)	(269)
Total changes in the statement of profit or loss	2	—	(467)	(11)	(476)
Cash flows					
Premiums paid	23	—	—	—	23
Amounts received	—	—	209	—	209
Total cash flows	23	—	209	—	232
Net closing balance	**(6)**	**—**	**451**	**25**	**470**
Closing assets	—	—	451	25	476
Closing liabilities	(6)	—	—	—	(6)
Net closing balance	**(6)**	**—**	**451**	**25**	**470**

2022					
£'000	**Liabilities for remaining coverage**		**Liabilities for incurred claims**		**Total**
	Excluding loss component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
Opening assets	109	—	335	46	490
Opening liabilities	—	—	—	—	—
Net opening balance	109	—	335	46	490
Changes in the statement of profit or loss					
Net expenses from reinsurance contracts	(1,919)	—	777	(10)	(1,152)
Net finance income from reinsurance	—	—	(63)	—	(63)
Total changes in the statement of profit or loss	(1,919)	—	714	(10)	(1,215)
Cash flows					
Premiums paid	1,779	—	—	—	1,779
Amounts received	—	—	(340)	—	(340)
Total cash flows	1,779	—	(340)	—	1,439
Net closing balance	**(31)**	**—**	**709**	**36**	**714**
Closing assets	—	—	709	36	745
Closing liabilities	(31)	—	—	—	(31)
Net closing balance	**(31)**	**—**	**709**	**36**	**714**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. Tax liabilities

	2023 £'000	2022 £'000
Current tax liabilities	2,106	3,689
Deferred tax liabilities	—	401
Total tax liabilities	2,106	4,090

Recognised deferred tax

The movement in the deferred tax liability is as follows:

	2023 £'000	2022 £'000
Balance at 1 January	(401)	(861)
Credit/(charge) for the year	401	460
Balance at 31 December	—	(401)

The deferred tax credit/(charge) in the period comprises the following temporary differences:

	2023 £'000	2022 £'000
Transitional adjustment on introduction of IFRS17	401	460
Total deferred tax charge	401	460

Deferred tax liability comprises:

	2023 £'000	2022 £'000
Transitional adjustment on introduction of IFRS17	—	401
Total deferred tax charge	—	401

17. Other financial liabilities

	2023 £'000	Restated* 2022 £'000
Due to related parties*	198	173
Total	198	173

All other financial liabilities are current liabilities.

*See note 1 for details regarding the restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

	2023 £'000	Restated* 2022 £'000
Net increase in operating assets		
Financial assets:		
Loans and receivables at amortised cost*	(1,739)	(799)
Net increase in operating assets	(1,739)	(799)
Net (decrease)/increase in operating liabilities		
Insurance contract liabilities (net)*	(17,410)	(11,880)
Financial liabilities:		
Other financial liabilities*	25	(1,414)
Net decrease in operating liabilities	(17,385)	(13,294)
Net (increase) in operating assets and liabilities	(19,124)	(14,093)

*See note 1 for details regarding the restatement.

19. Dividends paid

	2023 £'000	2022 £'000
Total dividends paid on equity shares	90,000	25,000
Total	90,000	25,000

Dividends of £90 million (290.3 pence per share) were paid during the year in respect of 2023 (2022: £25 million, 80.6 pence per share).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. 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).

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

This report from the GI Chief Actuary is 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. Major events such as storms or floods are considered separately, using projection patterns appropriate to the specific event in question.

The methodology for the calculation of the risk adjustment for liabilities for incurred claims is based on the reserve risk distribution from the Internal Capital model and is therefore consistent with the Internal Model used within the business. Management takes the view that this policy provides reliable and relevant information because it provides a documented approach for considering reserving uncertainty, and so reflects the compensation an entity requires for bearing this cashflow.

The risk adjustment is 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 risk adjustment is also considered as a percentage of best estimate reserves when selecting the amount to hold. The confidence level corresponding to the risk adjustment is 76 percent (2022: 78 percent).

The Company adjusts the future cash flows for the time value of money for incurred claims. The yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Yield Curve	4.73 %	4.02 %	3.67 %	3.47 %	3.35 %

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

(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.

The risk adjustment is calculated based using the same methodology as for home.

(3) Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. The impact is shown in one direction but can be assumed to be reasonably symmetrical.

			2023		
	Change in assumptions	Impact on PBT gross of reinsurance	Impact on PBT net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£'000	£'000	£'000	£'000	£'000
Weighted average term to settlement	+ 10%	(6)	(6)	(93)	(90)
Expected loss	+ 10%	(192)	(192)	(1,677)	(1,731)
Inflation rate	+ 1%	(19)	(19)	(173)	(173)

			2022		
	Change in assumptions	Impact on PBT gross of reinsurance	Impact on PBT net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£'000	£'000	£'000	£'000	£'000
Weighted average term to settlement	+ 10%	(31)	(29)	(135)	(130)
Expected loss	+ 10%	(744)	(718)	(2,563)	(2,613)
Inflation rate	+ 1%	(74)	(72)	(263)	(261)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

(3) Claims development tables

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	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£'000**
Estimate of ultimate claims costs:											
- at end of accident year	118.3	104.3	77.7	54.8	55.0	34.7	32.6	25.8	10.0	—	
- one year later	121.3	95.0	77.7	49.8	49.4	30.2	29.3	27.3	12.2		
- two years later	120.4	97.6	71.0	48.8	47.4	28.5	29.9	25.9			
- three years later	122.6	93.5	70.6	46.7	47.6	29.4	30.9				
- four years later	120.5	93.9	70.3	46.6	48.7	29.6					
- five years later	118.9	94.8	70.1	47.2	49.4						
- six years later	118.6	95.5	70.3	47.6							
- seven years later	118.7	96.8	70.3								
- eight years later	118.8	95.1									
- nine years later	118.9										
Current estimate of cumulative claims	118.9	95.1	70.3	47.6	49.4	29.6	30.9	25.9	12.2	—	479.8
Cumulative payments to date	(118.3)	(94.3)	(69.8)	(46.9)	(47.2)	(28.4)	(27.4)	(23.2)	(9.4)	—	(464.8)
Liability recognised in the Balance Sheet	0.6	0.7	0.5	0.6	2.2	1.2	3.6	2.7	2.8	—	15.0
Liability in respect of prior years											**0.9**
Effect of discounting											(0.9)
Effect of the risk adjustment for non-financial risk											0.9
Discounted unallocated claims handling expenses											0.6
Other gross assets and liabilities for incurred claims for which there is no significant uncertainty over the amount and timing of the claim cost extending over 12 months											1.9
Total gross liability included in the Balance Sheet											**18.4**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

(3) Claims development tables (continued)

Home - net

Accident year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of ultimate claims costs:											
- at end of accident year	118.3	104.3	77.7	54.8	54.7	34.0	31.5	25.7	9.9	—	
- one year later	121.3	95.0	77.7	49.8	49.1	29.5	27.8	27.0	12.1		
- two years later	120.4	97.6	71.0	48.8	47.2	27.5	28.0	25.6			
- three years later	122.6	93.5	70.5	46.7	47.4	28.6	29.2				
- four years later	120.5	93.9	70.2	46.6	48.4	28.8					
- five years later	118.9	94.8	70.0	47.2	49.2						
- six years later	118.6	95.5	70.2	47.6							
- seven years later	118.7	96.8	70.3								
- eight years later	118.8	95.1									
- nine years later	118.9										
Current estimate of cumulative claims	118.9	95.1	70.3	47.6	49.2	28.8	29.2	25.6	12.1	—	476.6
Cumulative payments to date	(118.3)	(94.3)	(69.7)	(46.9)	(46.9)	(27.6)	(26.0)	(23.0)	(9.4)	—	(462.1)
Liability recognised in the Balance Sheet	0.8	0.8	3.3	0.8	0.9	2.6	2.0	3.9	6.0	3.6	14.5
Liability in respect of prior years											**0.9**
Effect of discounting											(0.9)
Effect of the risk adjustment for non-financial risk											0.9
Discounted unallocated claims handling expenses											0.6
Other gross assets and liabilities for incurred claims for which there is no significant uncertainty over the amount and timing of the claim cost extending over 12 months											1.9
Total net liability included in the Balance Sheet											**17.9**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

(3) Claims development tables (continued)

Creditor - gross and net

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs:											
- at end of accident year	18.5	15.8	14.1	17.4	14.4	11.4	14.6	11.4	5.2	4.3	
- one year later	17.4	16.7	15.9	13.5	13.0	10.4	14.5	6.1	4.7		
- two years later	16.9	16.4	15.7	12.3	11.0	9.0	11.8	6.1			
- three years later	16.8	16.6	15.6	12.2	10.9	8.9	11.8				
- four years later	17.3	16.5	15.6	12.1	11.0	9.0					
- five years later	16.8	16.5	15.6	12.1	11.0						
- six years later	16.8	16.5	15.6	12.1							
- seven years later	16.8	16.5	15.6								
- eight years later	16.8	16.5									
- nine years later	16.8										
Current estimate of cumulative claims	16.8	16.5	15.6	12.1	11.0	9.0	11.8	6.1	4.7	4.3	107.8
Cumulative payments to date	(16.8)	(16.5)	(15.6)	(12.1)	(11.0)	(9.0)	(11.8)	(6.0)	(4.2)	(2.5)	(105.5)
Liability recognised in the Balance Sheet	—	—	—	—	—	—	—	0.1	0.5	1.8	2.3
Liability in respect of prior years											—
Effect of discounting											(0.1)
Effect of the risk adjustment for non-financial risk											0.1
Discounted unallocated claims handling expenses											0.9
Other gross assets and liabilities for incurred claims for which there is no significant uncertainty over the amount and timing of the claim cost extending over 12 months											0.6
Total gross liability included in the Balance Sheet											**3.8**

The Company has not had any reinsurance cover in place for the current and preceding five years in respect of creditor insurance. The creditor liability of £2.3 million shown in the above tables excludes £0.9 million (2022: £1.0 million) of unallocated claims handling expenses.

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 judgement. An increase of 10 per cent in the cost of total claims outstanding would result in the recognition of an additional cost of £1.9 million gross and £1.9 million net of reinsurance (2022: £3.3 million gross, £3.3 million net). Similarly, an increase of 10 per cent in the number of all claims would result in the recognition of an additional cost of £2.1 million gross and £2.0 million net of reinsurance (2022: £3.6 million gross, £3.5 million net). A 5 per cent increase in the inflation rate of claims would result in the recognition of an additional cost of £1.0 million gross and £0.9 million net of reinsurance (2022: £1.7 million gross, £1.6 million net).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. 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 2) 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.

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 2023

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Collective Investment Schemes - unlisted	31,062	—	—	31,062
Schroder Sterling Liquidity Fund	30,076	—	—	30,076
Total assets	61,138	—	—	61,138

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. Risk management (continued)

(a) Market risk (continued)

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

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.

For all business, the Company discounts and adjusts the future cash flows for the time value of money for incurred claims and is therefore directly sensitive to the level of market interest rates.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The correlation of variables will have an impact in determining the ultimate impact of interest rate risk, but to demonstrate the impact due to changes in variables, variables have been changed on an individual basis.

		2023		2022	
	Change in Interest rate	**Impact on profit before tax**	**Impact on equity**	**Impact on profit before tax**	**Impact on equity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Insurance and reinsurance contracts	+1%	12	218	66	284

(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 2023

21. 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

Company exposure to home insurance contracts

The Company no longer has any exposure to new home insurance claims incurred after January 2023 and does not underwrite new business or renewal business for this book. All liabilities in respect of home insurance contracts are in respect of Liabilities for Incurred Claims (LIC). Home insurance claims still make up the majority of the total LIC for the company as the claims on longer tailed perils such as subsidence are large and take a long time to settle.

The Company has the right to reject the payment of a fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e. subrogation). Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level liabilities for claims incurred. The company is still eligible to recover costs on historic flood claims where it had ceded the risk to Flood Re.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. Risk management (continued)

(c) Credit risk

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 analyse financial assets and reinsurance assets subject to credit risk exposure using S&P Global Ratings' rating or equivalent.

As at 31 December 2023

	Total	AAA	AA	A	BBB or lower	Not rated
	£'000	£'000	£'000	£'000	£'000	£'000
Stage 1 assets						
Cash and cash equivalents	60,034	—	—	60,034	—	—
Loans and receivables at amortised cost	5,825	—	—	—	—	5,825
Exposure to credit risk	65,859	—	—	60,034	—	5,825
Simplified approach assets						
Loans and receivables at amortised cost	253	—	—	253	—	—
Exposure to credit risk	253	—	—	253	—	—
Assets at FVTPL						
Collective investment schemes - unlisted	31,062	—	—	31,062	—	—
Other						
Net reinsurance assets	470	—	—	470	—	—
Total	97,644	—	—	91,819	—	5,825

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. Risk management (continued)

(c) Credit risk (continued)

As at 31 December 2022

	Total	AAA	AA	A	BBB or lower	Not rated
	£'000	£'000	£'000	£'000	£'000	£'000
Stage 1 assets						
Cash and cash equivalents	98,721	—	—	98,721	—	—
Loans and receivables at amortised cost*	3,962	—	—	—	—	3,962
Exposure to credit risk	102,683	—	—	98,721	—	3,962
Simplified approach assets						
Loans and receivables at amortised cost*	377	—	—	377	—	—
Exposure to credit risk	377	—	—	377	—	—
Assets at FVTPL						
Collective investment schemes - unlisted	98,160	—	—	98,160	—	—
Other						
Net reinsurance assets*	714	—	—	714	—	—
Total	201,934	—	—	197,972	—	3,962

*See note 1 for details regarding the restatement.

(d) Capital risk

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 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 2023

21. 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.

	2023 £'000	2022 £'000
Regulatory Capital held (unaudited)	67,582	155,667
Regulatory Capital required (unaudited)	(32,383)	(30,352)
Regulatory Surplus (unaudited)	35,199	125,315

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 contract liabilities is an estimated maturity analysis of the amount recognised in the Balance Sheet. 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 and do not include those relating to LRC of contracts measured under the PAA.

As at 31 December 2023

	Total £'000	Up to 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000
Liabilities for incurred claims	22,219	15,022	3,928	1,611	729	399	530
Other financial liabilities	198	198	—	—	—	—	—
Total	22,417	15,418	3,928	1,611	729	399	530

As at 31 December 2022

	Total £'000	Up to 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000
Liabilities for incurred claims	39,163	28,314	5,668	2,059	1,101	731	1,290
Other financial liabilities*	173	173	—	—	—	—	—
Total	39,336	28,487	5,668	2,059	1,101	731	1,290

*See note 1 for details regarding the restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. 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 2023 and 31 December 2022, 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), the Insurance Shareholder Investment Management Committee (ISIM) and Insurance Banking Liquidity Operations Committee (BLOC).

22. 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.

	2023			
	Income during period	**Expenses during period**	**Payable at period end**	**Receivable at period end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	—	90,000	—	—
Other related parties	812	4,494	1,800	9,569

	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

In addition to the balances disclosed in the table, balances of £61.0 million (2022: £164.0 million) and income of £5.0 million (2022: £2.0 million) in respect of funds controlled by Lloyds Banking Group meet the definition of related parties. The above balances are unsecured in nature and are expected to be settled in cash.

Parent undertaking transactions relate to dividends paid to the Company's immediate parent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

22. 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:

	2023 £'000	2022 £'000
Short-term employee benefits	622	383
Post-employment benefits	4	2
Share-based payments	103	75
Total	729	460

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £337,373 (2022: £271,085).

There were no retirement benefits accruing to Directors (2022: nil) under defined benefit pension schemes. No Directors (2022: no Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2022: 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 £62,450 (2022: £49,538). During the year, no Directors exercised share options (2022: no Directors) and no Directors received qualifying service shares under long term incentive schemes (2022: one Director).

Movements in share options are as follows:

	2023 Options	2022 Options
Outstanding at 1 January	1,530,395	1,562,500
Outstanding balance of directors newly appointed in the period	211,126	—
Granted	885,911	605,132
Exercised	(437,688)	(292,415)
Forfeited	(528,322)	(227,283)
Outstanding balance of directors resigned in the period	(391,115)	(117,539)
Outstanding at 31 December	1,270,307	1,530,395

A review has been undertaken of the presentation of the Directors share options. Accordingly, the prior year disclosure has been changed to better reflect leavers and joiners such that the closing balance of outstanding share options reflects active Directors at each reporting date.

Detail regarding the highest paid Director is as follows:

	2023 £'000	2022 £'000
Apportioned aggregate emoluments	106	87
Apportioned share-based payments	24	35
Total	130	122

The highest paid Director did not exercise share options during the year. (2022: The highest paid Director did not exercise share options during the year).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

23. 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 its enquiry into the matter and issued a closure notice. Lloyds Banking Group's interpretation of the UK rules has not changed and hence it appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities for the company of approximately £60.2 million (including interest). Lloyds Banking Group, following conclusion of the hearing and 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.

24. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2023 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.

The IASB has issued a number of minor amendments to IFRS effective 1 January 2024, including IFRS 16 Lease liability in a sale and leaseback, IAS 1 Non-current liabilities with covenants, and IAS 1 Classification of liabilities as current or non-current. These amendments are not expected to have a significant impact on the Company and, apart from the amendments relating to IFRS 16 Lease liability in a sale and leaseback, have not been endorsed for use in the UK.

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.

25. Post balance sheet events

There are no post balance sheet events affecting the Company that require disclosure for the year ending 31 December 2023.