

Soteria Insurance Limited

Annual report and accounts 2022

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Principal activities and business updates

Soteria Insurance Limited ('SIL' and the 'Company') is a UK-based General Insurer that underwrote insurance, predominantly in personal lines (Motor and Home).

On 11 February 2021, the Board made the decision to place the Company into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021 and SIL's last insurance policies expired in March 2022. The principal activity of the Company since entering run-off has been the administration of existing policies in force and the settlement of outstanding claims. The focus of the Directors is to meet all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Company has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its parent, Soteria Finance Holdings Limited (SFHL).

On 2 December 2020, SIL entered into an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25m, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds (AOF). SAOFS is a company related to SIL through having the same shareholders as SFHL. SIL did not draw upon this funding and the AOF has ceased with effect from February 2022, following approval from the PRA, as the capital was no longer required.

On 15 September 2022, 170 million ordinary shares were cancelled and extinguished by special resolution. This reduced the value of share capital from £208.0m to £38.0m.

On 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023.

Proposed Acquisition

The shareholders of SIL's parent company, SFHL, have entered into discussions with Pollen Street Capital (PSC) regarding the potential acquisition of SFHL by funds managed by PSC. A Section 178 notification for a proposed change in control has been submitted to the Prudential Regulatory Authority and was acknowledged by the PRA as a complete application on 22 March 2023. Any acquisition remains subject to regulatory approval and final agreement between the parties.

Financial position & performance

The financial position of the Company at 31 December 2022 is shown in the Statement of Financial Position on page 18 with the trading results shown in the Income Statement on page 17. A summary of the trading results is shown below.

Highlights

	2022	2021	Change
	£m	£m	£m
Earned premiums, net of reinsurance	(0.8)	165.4	(166.2)
Claims incurred, net of reinsurance	(24.9)	(152.6)	127.7
Other technical income, net of reinsurance	(1.7)	4.8	(6.5)
Net operating expenses	(8.0)	(50.9)	42.9
Balance on the technical account for general business	(35.4)	(33.3)	(2.1)
Investment income	4.2	34.8	(30.6)
Net unrealised losses on investments	(18.9)	(30.8)	11.9
Investment expenses and charges	(2.9)	(3.2)	0.3
Loss on ordinary activities before tax	(53.0)	(32.5)	(20.5)

The 2022 full year financial result was a loss before taxation of £53.0m (2021: £32.5m loss).

The Company incurred a loss before tax in the year, primarily as a result of a combination of strengthening reserves in respect of prior years' claims and losses suffered on its investment portfolio.

No new policies were written in the year and the final existing policies expired in March 2022. Gross written premiums were negative in the year, owing to the impact of cancellations and policy adjustments.

Claims incurred decreased from £152.6m in 2021 to £24.9m in 2022. As a result of entering run-off in 2021, SIL's exposure to new claim events occurring in 2022 was low, and these claims contribute just £1.2m to cost in the year. The bulk of the claims incurred relates to strengthening reserves in respect of prior years' claims, primarily in relation to a relatively small number of large motor injury claims.

Commission and expenses reduced from £50.9m in 2021 to £8.0m in 2022. The majority of SIL's expenses relate to staff costs and IT outsourcing fees.

Investment income for the year was £4.2m. This amount includes interest of £9.1m, offset by realised losses of £4.9m. In addition, unrealised losses on investments amounted to £18.9m. Investment performance is lower than in 2021, owing to the impact of increasing interest rates on the bond markets, together with the effect of the war in Ukraine. The majority of the investments are held in high grade corporate and government bonds, and are intended to be held until maturity. Owing to the strategy of matching investments and forecast cash outflows, it is anticipated that the unrealised losses on these investments will unwind over time as most of the bonds are expected to mature at par value. The increased yields now available are expected to have a favourable impact on investment return in future years.

Financial position & performance (continued)

On 15 September 2022, 170 million ordinary shares were cancelled and extinguished by special resolution. This reduced the value of share capital from £208.0m to £38.0m.

The Company has a Solvency Capital Requirement (SCR) coverage at 31 December 2022, calculated on a run-off basis, of 296% and projections show headroom with the ability to continue to meet regulatory requirements and risk appetite throughout the planning horizon.

On 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023. The pro forma SCR coverage at 31 December 2022, after having taken account of the dividend payment, would have been 228%.

Impact of inflation and interest rate rises

Driven by the war in Ukraine as well as rising fuel prices and other global factors, inflation has risen sharply during 2022, with CPI at 10.5% by the end of the year. As a result, the Bank of England have increased the base rate from 0.25% at the start of the year to 3.5% by the end of December. Subsequently this has increased to 4.25% by the end of March 2023.

Claims

Increased inflation has led to an increase in claims costs as the cost of vehicle parts and building materials has increased. As a result of being in run-off, SIL's exposure to these types of claim is now much reduced. The observed impact of wage increases on bodily injury claims has been relatively low to date, but is expected to continue to have an impact in 2023, particularly if current widespread industrial action leads to further wage increases in the public sector. The impact of inflation on SIL's operating costs is dampened by the fixed cost fee arrangement in the outsourcing agreement with Markerstudy Insurance Services Limited (MISL).

Investments

Rising interest rates have had an adverse effect on market values of fixed rate and index-linked bonds held by SIL and have been the primary cause of the £18.9m unrealised loss made during the year.

Operational developments

Operational activities are managed by MISL, with oversight by SIL. All core servicing and claims activities have agreed service levels, including activities undertaken by third-party suppliers on behalf of MISL. The service levels are, in most instances, in line with the service parameters that SIL maintained in previous years when such services were managed in-house.

SIL regularly monitors the operational performance against service levels, and monthly reporting updates are provided to both SIL and MISL's senior management, with agreed processes and procedures in place to resolve any under-performance. Operationally, the run-off is progressing as planned, with customer outcomes in line with expectations.

Colleagues

A small number of colleagues are employed directly by SIL to provide oversight and fulfil regulatory responsibilities. Given the strategic direction of the business, the priority throughout the year has been to provide support to these colleagues and to maintain motivation, morale and productivity following the decision to take the Company into run-off. A one-off exceptional bonus payment was made to colleagues in October 2022 to help offset the rising cost of living.

Regulatory background

Now that SIL has been in run-off since March 2021 there is reduced regulatory impact on the business, with the focus being on the ability to continue to service claims.

The regulatory focus on environmental, social and governance (ESG) matters and climate change continues to encourage companies to consider these matters for the business and wider society. Being in run-off, there is reduced impact, however the Company has incorporated Climate Change risk into its Risk Management Framework and Investment Mandate and has assigned an owner who is responsible for the management and reporting of climate change. SIL has considered its exposure to climate change risk and has concluded that the highest exposure is in its investment portfolio and, therefore, in market risk. However, this is not considered to be an undue level of risk, and it is incumbent on SIL's management, Board and investment partners to ensure that the longer term investment strategy, albeit notably limited in size, is managed effectively and minimises the risk of exposure to climate affected sectors.

In July 2022 the FCA published its final rules and guidance on the introduction of the new Consumer Duty setting a higher expectation for the standards of customer care above and beyond its current set of Principles and rules for all regulated firms. SIL has responded by appointing a Consumer Duty champion and putting in place an implementation plan. In addition, as SIL's claims handling activities are outsourced to MISL, SIL is working to ensure that MISL are complying with the rules.

Capital

SIL has continued to monitor available capital on a Solvency II basis throughout 2022, with a Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2022 of 296% (2021:232%). The SCR has reduced during the year, and coverage consequently increased, as the Company's exposure to risk reduces as the insurance liabilities run off.

Regulatory permission is required for a firm in run-off to extract capital in the form of a dividend to shareholders. SIL has implemented a dividend extraction policy and held a dialogue with the PRA in this regard. On 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023. The pro forma SCR coverage at 31 December 2022, after having taken account of the dividend payment, would have been 228%.

Key performance indicators

The business strategy for SIL measures success in the key areas of financial performance and capital adequacy & risk. This 'balanced scorecard' approach helps ensure focus on the implications to areas identified as being key in progressing towards the Company's strategic vision. In addition, a range of customer outcomes measures are considered although there is no single key indicator.

Indicator	2022	2021
Financial		
<i>Financial measures focus on profitability and the value of the business</i>		
(Loss)/profit before taxation This shows the level of (loss)/profit before tax	(£53.0m)	(£32.5m)
Net asset value This shows the value of total assets less total liabilities	£184.0m	£236.5m
Capital adequacy & risk		
<i>Risk measures focus on capital adequacy and risk appetite</i>		
Risk appetite For each of the principal risks, the SIL Board has approved risk appetite statements with underpinning metrics	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues	
Capital buffer There are a number of different methodologies for calculating the minimum level of capital that SIL must maintain. At any one time, SIL must ensure it has sufficient capital to meet the most onerous of these requirements. The principal externally imposed capital requirement is the SCR under Solvency II, which is assessed quarterly.	296%	232%

Risks and uncertainties

The following are considered to be the high level risks facing SIL:

Level 1 Risks	Definition
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.
Conduct risk	The risk that SIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation SIL may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities.
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements.
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.
Liquidity risk	The current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses.
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations ¹ .

¹ This does not include credit risk arising from investments such as corporate bonds which are captured as level 2 market risks.

The most material risks that SIL is exposed to are reserve risk and market risk. These are exacerbated in the current environment by the high rate of inflation affecting outstanding claims and the volatile nature of investment markets.

A detailed description of each risk type can be found on pages 40 to 46.

Section 172(1) statement & stakeholder engagement

The Board of SIL considers that it has, in good faith, acted in a way that it considers would be most likely to promote the success of SIL for the benefit of its members as a whole, and, in doing so, has had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172 (1) (a-f) of the Act) when making decisions.

Overview

Good corporate governance underpins how we conduct ourselves as a Board; our culture, values, behaviours and how we do business. As a Board, we are conscious of the impacts that our business and decisions have on our direct stakeholders as well as our wider societal impact.

The Board of SIL is aware of its duties under the Companies Act, including the matters set out in s.172 and has adopted a framework of matters reserved for its decision. It has also approved terms of reference for matters delegated to its committees and reviews these periodically to ensure they accord with best practice.

For any principal decisions approved by the Board, a discussion takes place around impact on our key stakeholders, including our colleagues and our customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making.

Section 172(1) statement & stakeholder engagement (continued)

Board Decisions

The table below sets out examples of our key stakeholders, our approach to engaging with them, and how they are taken into regard in Board considerations.

Key stakeholders	Board matter	Board considerations
<p>Shareholder</p> <p>Our Board maintains open and regular dialogue with its parent. This includes, for example, regular discussion between the SIL Management team and the SFHL Board and SFHL Risk & Audit Committee in order to understand the concerns and priorities of the parent entity. One SIL Non-Executive Director also serves on the SFHL Board to provide a link between the two Boards.</p>	<p>Performance and risks</p>	<p>In all discussions the Board regularly considers if and how it is acting in the best interest of its parent, whilst ensuring that any actions:</p> <ul style="list-style-type: none"> • do/will not breach any regulatory requirements applicable to SIL or the Board; • do/will not have any adverse effect on the security of SIL's policyholder benefits; and • comply with any legislation applicable to SIL. <p>The SFHL Board receives performance updates on SIL, which includes the SIL Management team attending the SFHL Risk & Audit Committee.</p>
<p>Customers</p> <p>Protecting our customers and providing a good customer experience remains at the heart of what we do.</p> <p>SIL proactively monitors customer complaints and has a customer focused culture to ensure fair outcomes for all. For example, there is a standing agenda item for the Board Risk Committee on Customer Outcomes.</p>	<p>Consumer Duty</p>	<p>Following approval of the Consumer Duty implementation plan, the Board Risk Committee requested that Consumer Duty is added as a standing agenda item. SIL takes its responsibility to oversee MISL's plans in this area seriously and has put in place a process to monitor their progress.</p>
<p>Colleagues</p> <p>A small number of colleagues are employed directly by SIL to provide oversight and fulfil regulatory responsibilities.</p> <p>We recognise the importance of engaging our colleagues, ensuring their views are considered when making decisions and supporting their wellbeing.</p>	<p>Colleague reward</p>	<p>The Board and Remuneration Committee considered the approach to colleague reward in light of:</p> <ul style="list-style-type: none"> • the reduced number of colleagues employed directly by SIL; • the need to attract and retain key skills; • the impact of the decision to put SIL into run-off on colleagues' roles and future longevity of employment; and • the cost of living crisis.

Section 172(1) statement & stakeholder engagement (continued)

Key stakeholders	Board matter	Board considerations
<p>Regulator</p> <p>As a regulated entity, SIL has to comply with the requirements of the PRA and the FCA and to report to them on a regular basis.</p>	<p>Regulation and compliance</p>	<p>In addition to the standard regulatory reporting requirements, the Board engaged with the regulators on the following matters:</p> <ul style="list-style-type: none"> • with the PRA regarding removal of the ancillary own funds instrument, which was approved in February 2022; • with the PRA and FCA regarding a change in the Chief Risk Officer and associated Senior Management Function (SMF) responsibilities; • with the PRA regarding the capital reduction exercise which took place in September 2022; and • with the PRA regarding the dividend extraction policy and payment of a dividend, which was approved in February 2023. <p>The SFHL Board engaged with the SIL Board on the following matter:</p> <ul style="list-style-type: none"> • the potential change of ownership of SFHL, for which a Section 178 notification was submitted to the PRA and was acknowledged by the PRA as a complete application in March 2023.

Approved by the Board on 3 April 2023 and signed on its behalf by:



Mark Summerfield
Director

Directors' report

Report of the Board of Directors

General information

SIL is a Limited Company registered in England & Wales under the Companies Act 2006 (registered number 12698289). SIL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 435022).

Post balance sheet events

Proposed Acquisition

The shareholders of SIL's parent company, SFHL, have entered into discussions with Pollen Street Capital (PSC) regarding the potential acquisition of SFHL by funds managed by PSC. A Section 178 notification for a proposed change in control has been submitted to the Prudential Regulatory Authority and was acknowledged by the PRA as a complete application on 22 March 2023. Any acquisition remains subject to regulatory approval and final agreement between the parties.

Dividends

On 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023.

Results and dividends

The financial statements set out the results of SIL for the year ended 31 December 2022 and are shown on pages 17 to 20. No dividend payment was proposed or made during the year or prior year, however, on 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023.

Political donations

There were no political donations during the year or prior year.

Directors' details

The Directors of SIL during the financial year are listed below. Their appointments were for the full period unless otherwise stated:

Non-Executive Directors:

Ewen Gilmour (Chair)

Kathryn Morgan

Oliver Peterken

Executive Directors:

Mark Summerfield (Chief Executive Officer)

Grant Mitchell (Chief Financial Officer)

Secretary:

Vistra Company Secretaries Limited

Employees and employment of people with disability

SIL employs a small number of colleagues to oversee the key functions of the business, with additional services provided by Markerstudy Insurance Services Limited (MISL).

The Company actively encourages all employees to become involved in the Company's activities and information is shared on a regular basis through email correspondence and regular meetings so that employees are aware of factors affecting them and the performance of the business.

SIL is committed to the fair and equitable treatment of all of its employees irrespective of gender, race, age, religion, disability or sexual orientation. The Company gives full and fair consideration to applications for employment from disabled persons, equally with those who do not have a disability and to retain and re-train any employees that become disabled during their working life.

Corporate responsibility and the environment

The Investment Committee reviews asset categories and, where required, individual assets, to ensure that these are held in line with ethics appetites. The investment mandate includes limits to control direct exposure to climate related risks in the investment portfolio, with restrictions set to ensure:

- no direct exposure to investments in the fossil fuel industry (namely coal, oil, gas and mining) beyond 31 December 2025; and
- until 31 December 2025, direct exposure to investments in the fossil fuel industry is limited to 20% of the Solvency Capital Requirement.

In addition, the main investment portfolio, managed by Credit Suisse, follows their ESG framework, which ensures that investments meet certain relevant standards. Compliance with these standards is reported each month to the overall investment manager, TwinFocus Limited, and any breaches are reported to the Investment Committee.

Statement of going concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that SIL has the resources to continue in business for at least the period from the date of approval of the financial statements up to 31 December 2024. In making this assessment, the Directors have performed a detailed analysis of future capital and liquidity.

The going concern assessment performed takes into account that the Company continues as a going concern as, during the run-off period, the Company operates its business of administration and settlement of outstanding claims. Projections take into account the recognition of all future expenses within technical provisions at the point SIL went into run-off. SIL's ability to continue as a going concern has been considered by reference to its projected coverage of regulatory and economic capital requirements, its liquidity and its resilience to withstand foreseeable stress scenarios.

In the central forecast case, solvency projections show a low point in the Economic Capital Requirement (ECR) coverage of 150% in June 2023, when the dividends are paid. Liquidity projections assess expected liquid assets (cash, money market funds and UK gilts) and stressed investments (the value of investments in a stressed scenario after applying a haircut, which considers the type of asset and maturity). Both projected liquid investments and stressed investments are expected to be in excess of the Board's risk appetite throughout the period of review.

The Directors have then considered the potential impact of various stresses including, but not limited to, adverse claims experience and a fall in the market value of assets. In all cases, solvency coverage remains above 100%. In each scenario, SIL has sufficient liquidity to pay liabilities as they fall due. Even in the event of an extreme stress scenario (such as an inflationary uplift on outstanding claims or the failure of a key reinsurer or outsourcing partner), it is projected that SIL would likely be able to meet the majority of payments solely from existing cash holdings and investment maturities, with only modest reliance on additional income from the sale of highly liquid gilts or highly rated corporate bonds.

The Directors have also considered a reverse stress test, which involves several of the stress scenarios happening concurrently, and is therefore extremely unlikely. In this scenario, the ECR and SCR coverage ratio is projected to fall below 100% if dividends are paid as planned but would remain in amber or green status if future dividends were cancelled. In this scenario, SIL would still be expected to be able to meet all of its liabilities as they fall due through the sale of corporate bonds.

Risk management and internal controls

The Board has overall responsibility for SIL's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the Board and senior management.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The control framework cascades through the business, detailing clear responsibilities for ensuring appropriate controls are in place at an operational level, including controls relating to the financial reporting process. SIL's approach to Risk Management is set out in further detail on pages 40 to 46.

SIL's internal control systems are designed to manage, rather than eliminate, the risks of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefits from, internal control systems.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of SIL's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges, on an ongoing basis, reports from management, the internal audit function and external auditors. This enables it to consider how to manage or mitigate risk in line with SIL's risk strategy. The Audit Committee did not identify or report any material failings to the Board in 2022.

Whenever any significant control weaknesses are identified actions are taken, or agreed plans are put in place and tracked by the Board to implementation.

Annual Report and Accounts

So far as the Directors are aware, there is no relevant audit information of which SIL's auditors are unaware, and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that SIL's auditors have been made aware of that information.

Directors' report

Report of the Board of Directors

Statement of Directors' responsibilities in respect of the report of the Board of Directors and the Annual Report and Accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have elected to prepare SIL's accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103, Insurance Contracts).

As required by Law, the Directors must not approve the Annual Report and Accounts unless they are satisfied that they give a true and fair view of the state of affairs of SIL and of its profit or loss for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- in respect of the financial statements, state whether UK accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the accounts on the going concern basis unless it is appropriate to presume that SIL will not continue in business.
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103, Insurance Contracts) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance.

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 SIL and enable them to ensure that its accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of SIL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with that law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on SIL's website.



By order of the Board

Mark Summerfield

Director

7th Floor Arndale House

122a Market Street

Manchester

M4 3AG

3 April 2023

Opinion

We have audited the financial statements of Soteria Insurance Limited for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 29 (except for the section of Note 25 (i) and (ii) which is marked as unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period to 31 December 2024;
- evaluating the solvency and liquidity position of the company by reviewing base case solvency and liquidity projections. We agreed the starting position of the projections, where applicable, to the audited financial information;
- understanding how severe the downside solvency and liquidity scenarios would have to be to result in the elimination of available headroom and concluded them to be remote;
- assessing management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and their impact on the going concern assessment;
- reviewing the company's latest forecasts and considering the impact on the company's ability to continue operating as a going concern;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the company's ability to continue as a going concern. We also reviewed minutes of meetings of the Board and its committees to assess whether there were any other matters discussed that may have an impact on the company's ability to continue as a going concern; and
- assessing the appropriateness of the going concern disclosures by comparing them for consistency with management's assessment and for compliance with the relevant reporting requirements.

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 to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">• Inappropriate setting of claims outstanding (specifically IBNR)
Materiality	<ul style="list-style-type: none">• Overall materiality of £3.6m which represents 2% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

Stakeholders are increasingly interested in how climate change will impact companies. The company has determined that the physical and transition risks from climate change do not currently pose a material risk to the company. This is explained on page 4 in the strategic report, which forms part of the “Other information,” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk, physical and transition risks and the resulting conclusion that there was no material impact from climate change, and the adequacy of the Company’s disclosures on page 21 of the financial statements which explain the rationale.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Inappropriate setting of claims outstanding (specifically IBNR) (£57.7m, 2021: £83.9m – both on a gross of reinsurance basis)</p> <p><i>Refer to the Accounting policies (page 23); and Note 20 of the Financial Statements (page 35)</i></p> <p>The estimation of claims outstanding is inherently uncertain and has a material impact on the reported results and financial position.</p> <p>The company ceased underwriting insurance business on 29 March 2021, and has no live exposures post 29 March 2022, with the absolute quantum of claims outstanding reducing.</p> <p>However, uncertainty arises as a consequence of the continued natural run-off of claims, whereby the outcomes of remaining claims may have a more significant impact on the results and financial position of the Company. We have therefore assessed the level of the risk as consistent with the prior year.</p> <p>Management records a margin in addition to the best estimate. The setting of the margin is highly judgemental as, of its very nature, it is held to recognise liabilities and uncertainties that have not yet manifested through the available data.</p> <p>The subjectivity in estimating the gross best estimate and the recognition of a margin makes the claims outstanding susceptible to the risk of management override.</p>	<p>We updated our understanding of the reserving process employed by management, paying particular attention to the setting of IBNR and management’s methodology including that used for the setting of the margin, and assessed the design and implementation of key controls within the process.</p> <p>Supported by our actuaries who were part of the audit team, and using management’s own data, we independently projected, on both a gross and net basis, the best estimate and a reasonable range of estimates. We investigated significant differences between our projections and management’s best estimate for each reserving class, including comparison of these differences relative to our independent projections for the prior period.</p> <p>We tested the data used in the reserving process and confirmed it was consistent with the audited accounting records.</p> <p>We assessed management’s actuarial assumptions against our own experience, market practice, and other industry participants, especially as regards the liability class of business.</p> <p>We assessed the appropriateness of the net discount rate used to discount the gross Period Payment Orders (PPOs) claims outstanding balance having regard to the inflation and investment return assumptions (including the associated re-investment risks). We considered the investment return assumption based on the assets committed to back the PPO liabilities.</p> <p>We challenged the level of margin held compared to market practice, prior periods and in the context of the areas of uncertainty for which the margin is held.</p>	<p>We consider that the claims outstanding (specifically IBNR), including management margin, lie within what we consider to be a reasonable range of estimates.</p> <p>In addition, we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the estimation of claims outstanding.</p>

There has been no change to our key audit matter from the prior year auditor’s report.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £3.6 million (2021: £2.4 million), which is 2% (2021: 1%) of net assets at 31 December 2022. We believe that net assets provides us with the most appropriate basis that will enable us to identify misstatements that may influence the users of the financial statements. We believe that the users of the financial statements are focused on the capital strength of the company and net assets is the UK GAAP metric that is mostly aligned to this.

During the course of our audit, we reassessed initial materiality and increased it from £3.2m to £3.6m, due to a change in the net asset value at year-end compared to the amount forecasted at the planning stage of the audit.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £1.8m (2021: £1.2m). We have set performance materiality at this percentage due to our assessment of the overall control environment and the level of prior year audit differences.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £180k (2021: £120k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, 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.

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.

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how Soteria Insurance Limited is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies; reviewed minutes of the Board and its committees; and gained an understanding of the company's approach to governance.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also performed journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business. We also considered areas of significant judgment, including performance targets, external pressures and the impact these have on the control environment. The fraud risk, including management override, was considered to be higher in respect of the estimation of claims outstanding (specifically IBNR), and we performed audit procedures to address the risk as detailed in the key audit matter above and our communication to the Audit Committee.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the PRA and FCA.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

The company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team and concluded that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 21 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2016 to 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Ernst & Young LLP

Vinood Ramabhai (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

3 April 2023

Notes:

1. The maintenance and integrity of the Soteria Insurance Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2022

All amounts are stated in £m unless otherwise indicated

	Notes	2022	2021
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	5	(1.5)	9.9
Outward reinsurance premiums	5	(0.3)	(6.1)
Net written premiums		(1.8)	3.8
Change in the provision for unearned premiums			
- gross amount	5	1.1	167.2
- reinsurers' share	5	(0.1)	(5.6)
Earned premiums, net of reinsurance	5	(0.8)	165.4
Other technical income, net of reinsurance	6	(1.7)	4.8
Total technical income		(2.5)	170.2
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	7	(100.1)	(212.1)
- reinsurers' share	7	21.6	41.1
	7	(78.5)	(171.0)
Change in the provision for claims			
- gross amount	20	61.4	50.8
- reinsurers' share	20	(7.8)	(32.4)
		(24.9)	(152.6)
Claims incurred, net of reinsurance			
Net operating expenses	8	(8.0)	(50.9)
Total claims and expenses		(32.9)	(203.5)
Balance on the technical account for general business		(35.4)	(33.3)
Non-technical account			
Balance on the general business technical account		(35.4)	(33.3)
Investment income	9	4.2	34.8
Net unrealised losses on investments	9	(18.9)	(30.8)
Investment expenses and charges	10	(2.9)	(3.2)
Loss on ordinary activities before tax		(53.0)	(32.5)
Tax on loss on ordinary activities	12	0.5	5.5
Loss for the financial year attributable to members of the Company		(52.5)	(27.0)

Statement of Comprehensive Income/(Expense)

For the year ended 31 December 2022

All amounts are stated in £m unless otherwise indicated

	Notes	2022	2021
Loss and total comprehensive expense for the financial year		(52.5)	(27.0)

Statement of Financial Position

For the year ended 31 December 2022

All amounts are stated in £m unless otherwise indicated

	Notes	2022	2021
Assets			
Investments			
Financial investments	13	<u>324.8</u>	398.5
Reinsurers' share of technical provisions			
Provision for unearned premiums	19	-	0.1
Claims outstanding	20	<u>75.2</u>	64.9
		<u>75.2</u>	65.0
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		0.1	2.2
- intermediaries		8.7	16.0
Corporation tax debtor	21	2.6	2.4
Other debtors	14	<u>1.3</u>	0.6
		<u>12.7</u>	21.2
Other assets			
Cash and cash equivalents	15	<u>98.3</u>	151.1
Prepayments and accrued income			
Accrued interest		3.4	3.4
Deferred acquisition costs	16	-	0.1
Other prepayments and accrued income		<u>0.6</u>	1.5
		<u>4.0</u>	5.0
Total assets		<u>515.0</u>	640.8

Statement of Financial Position

For the year ended 31 December 2022


All amounts are stated in £m unless otherwise indicated

	Notes	2022	2021
Equity and liabilities			
Capital and reserves			
Called up share capital	17	38.0	208.0
Capital reserve	18	57.1	57.1
Retained earnings	18	88.9	(28.6)
Total capital and reserves		184.0	236.5
Technical provisions			
Provision for unearned premiums	19	-	1.1
Claims outstanding	20	326.1	392.4
		326.1	393.5
Provisions for other risks			
Provision for taxation	21	-	0.5
Creditors			
Creditors arising out of direct insurance operations		1.4	-
Creditors arising out of reinsurance operations		0.1	0.2
Other creditors including taxation and social security		0.3	7.2
		1.8	7.4
Accruals and deferred income			
		3.1	2.9
Total liabilities			
		331.0	404.3
Total equity and liabilities			
		515.0	640.8

Approved by the Board of Directors on 3 April 2023 and signed on its behalf by:



Mark Summerfield, Chief Executive Officer



Grant Mitchell, Chief Financial Officer

Statement of Changes in Equity

For the year ended 31 December 2022

All amounts are stated in £m unless otherwise indicated

	Notes	Share capital	Capital reserve	Retained earnings	Total
2022					
Balance at the beginning of the financial year		208.0	57.1	(28.6)	236.5
Loss for the financial year		-	-	(52.5)	(52.5)
Transactions with owners of the Company:					
Reduction in share capital	17 & 18	(170.0)	-	170.0	-
Balance at the end of the financial year		38.0	57.1	88.9	184.0
2021					
Balance at the beginning of the financial year		208.0	57.1	(1.6)	263.5
Loss for the financial year		-	-	(27.0)	(27.0)
Balance at the end of the financial year		208.0	57.1	(28.6)	236.5

1. General information

Soteria Insurance Limited (SIL) is a Limited Company registered in England under the Companies Act. The registered office is 7th Floor, Arndale House, 122a Market Street, Manchester, M4 3AG. SIL is a UK-based General Insurer that underwrote insurance, predominantly in personal lines (Motor and Home). The annual report and accounts were authorised for issue by the Board of Directors on 3 April 2023.

On 11 February 2021, the Board made the decision to place the Company into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021 and SIL's last insurance policies expired in March 2022. The principal activity of the Company since entering run-off has been the administration of existing policies in force and the settlement of outstanding claims.

2. Basis of preparation and statement of compliance

The annual report and accounts of SIL have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), the Companies Act 2006 and the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

As permitted by FRS 103, SIL continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

Exemptions applied by the Company

- i. SIL has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the Company's cash flows are included in the consolidated statement of cash flows presented in the publicly available group annual report and accounts of its parent company, Soteria Finance Holdings Limited.

The financial information has been prepared under the historic cost convention, except for certain financial instruments which are measured at fair value.

The preparation of the annual report and accounts requires the use of certain critical accounting estimates and judgments. Information about assumptions and other sources of estimation uncertainty is disclosed in note 4, where these have a significant impact on the annual report and accounts.

In preparing these financial statements the Directors have considered the impact of the physical and transition risks of climate change and identified this as an area of focus, as set out on page 4, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2022. This is because the financial investments are reported at fair value under UK GAAP and, as set out in note 28, therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on the financial investments. Insurance liabilities are accrued based on past insurable events so will not be affected by any future impact of climate change. However, we recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently. As the Company is now in run-off, there is limited impact from changes in the frequency or magnitude of future insurable events linked to the effect of climate risks.

Going concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that SIL has the resources to continue in business for at least the period from the date of approval of the financial statements up to 31 December 2024. In making this assessment, the Directors have performed a detailed analysis of future capital and liquidity.

The going concern assessment performed takes into account that the Company continues as a going concern as, during the run-off period, the Company operates its business of administration and settlement of outstanding claims. Projections take into account the recognition of all future expenses within technical provisions at the point SIL went into run-off. SIL's ability to continue as a going concern has been considered by reference to its projected coverage of regulatory and economic capital requirements, its liquidity and its resilience to withstand foreseeable stress scenarios.

In the central forecast case, solvency projections show a low point in the Economic Capital Requirement (ECR) coverage of 150% in June 2023, when the dividends are paid. Liquidity projections assess expected liquid assets (cash, money market funds and UK gilts) and stressed investments (the value of investments in a stressed scenario after applying a haircut, which considers the type of asset and maturity). Both projected liquid investments and stressed investments are expected to be in excess of the Board's risk appetite throughout the period of review.

The Directors have then considered the potential impact of various stresses including, but not limited to, adverse claims experience and a fall in the market value of assets. In all cases, solvency coverage remains above 100%. In each scenario, SIL has sufficient liquidity to pay liabilities as they fall due. Even in the event of an extreme stress scenario (such as an inflationary uplift on outstanding claims or the failure of a key reinsurer or outsourcing partner), it is projected that SIL would likely be able to meet the majority of payments solely from existing cash holdings and investment maturities, with only modest reliance on additional income from the sale of highly liquid gilts or highly rated corporate bonds.

The Directors have also considered a reverse stress test, which involves several of the stress scenarios happening concurrently, and is therefore extremely unlikely. In this scenario, the ECR and SCR coverage ratio is projected to fall below 100% if dividends are paid as planned but would remain in amber or green status if future dividends were cancelled. In this scenario, SIL would still be expected to be able to meet all of its liabilities as they fall due through the sale of corporate bonds.

2. Basis of preparation and statement of compliance (continued)

Foreign currencies

The functional and presentational currency for SIL is sterling. All amounts presented are stated in pound sterling and millions, unless stated otherwise.

SIL holds some investments denominated in Euros and US Dollars which are translated to the Company's functional currency at the exchange rate at the reporting date. Transactions in foreign currencies are recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of investments at the financial reporting date are recognised in the non-technical profit and loss account.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in this annual report and accounts.

a) Revenue recognition

Revenue principally comprises:

i) Premium income from insurance contracts

SIL's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy note b) ii).

ii) Investment income

Interest income on loans and receivables is recognised within investment income on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating EIR, SIL estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

Interest income on investment assets accounted for at fair value through income or expense is recognised within investment income in the income statement as it accrues on an effective interest rate basis.

iii) Dividend income

Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised when the dividend is paid.

iv) Fee and commission income

Fees and commission receivable mainly relates to administration fee income and brokerage commission received for products and services administered by third parties.

Revenue is recognised as the Company satisfies the related performance obligation in accordance with FRS 102. In the case of services such as policy administration fees, SIL's performance obligations are met when the third party makes adjustments in its administration of the policy. At this point, SIL's commission income is recognised in full at the contracted rate. The resulting receivable to SIL is settled by the third party to contract terms of 30 days following the month end the service was completed. All obligations in respect of the service, including obligations for returns, refunds and other similar obligations are completed by the third party. There are no warranty or related obligations for which SIL is liable.

Commission receivable on third party product sales is recognised upon the sale as all SIL's obligations are met immediately. The resulting receivable to SIL is settled by the third party to contract terms of 30 days following the month end the transaction was completed. The SIL receivable is fixed per policy per contract terms with the third party. SIL has no future obligation for the commission received on sale of that product through warranty or any other related obligations. Obligations for returns, refunds and other similar obligations are met by the third party.

v) Profit commission due under reinsurance arrangements

Profit commission due under reinsurance arrangements is recognised in the income statement in line with the associated premiums ceded and ceded incurred claim costs, in accordance with the contractual terms to which they are subject.

b) Insurance contracts

i) Classification of insurance contracts

Contracts under which SIL accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by SIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

b) Insurance contracts (continued)

ii) Recognition of premium income

Gross written premiums comprise premiums receivable on those contracts which inceptioned during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods.

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which inceptioned prior to the year-end but which may be cancelled after the statement of financial position date; and
- include an estimate of pipeline premium, using historic average trends.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract.

iii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year end is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis.

Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iv) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned.

v) Claims incurred

Insurance claims incurred comprises claims paid during the year, together with related claims handling costs and the change in the gross liability for claims in the period, net of related recoveries including salvage and subrogation.

vi) Claims provisions and related reinsurance recoveries

Claims outstanding comprises provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the statement of financial position date (claims reported); and
- expected additional cost in excess of claims reported for all claims occurring by the statement of financial position date (claims incurred but not reported).

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse run off deviations are expected. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts including the claims development tables.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'reinsurance assets' and 'insurance receivables and other assets' respectively.

Outstanding reserves are discounted in respect of periodical payments and a portion of historic liability claims from the electric industry for which separate assets are held of similar duration.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the income statement and statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

viii) Quota share

The quota share reinsurance contract transfers insurance risk on a proportional basis. The income statement is shown net of premiums ceded, claims recoverable and commission earned under this arrangement. See note 11 Segmental analysis.

Premiums ceded are held in a notional funds withheld account, against which claims paid recoveries, earned commission and margin paid, are deducted. The funds withheld balance is offset against expected recoveries for claims outstanding and future profit commission in the statement of financial position.

b) Insurance contracts (continued)

ix) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts.

Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision.

Such provisions seek to ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses, and therefore meets the requirements of the liability adequacy test as set out in FRS 103 (Insurance Contracts).

c) Financial instruments

SIL has elected to apply the provisions of Section 11 “Basic Financial Instruments” and Section 12 “Other Financial Instruments Issues” of FRS 102 to all of its financial instruments.

i) Recognition of financial assets and financial liabilities

Financial assets are recognised by SIL on the trade date which is the date it commits to purchase the instruments. All other financial instruments are recognised on the date that they are originated.

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are sold and:

- the rights to receive cash flows from the assets have ceased; or
- SIL has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Basic financial instruments

Debt securities

SIL classifies its holdings in debt securities as basic financial instruments. They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally to key management personnel on that basis.

Initial measurement is at fair value, being purchase price on the date on which SIL commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. Interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note a, section ii, (page 22) for further details.

Loans and receivables

Loans and receivables, including insurance premium debt receivables but excluding salvage and subrogation, are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, less impairment provisions for incurred losses.

Financial liabilities

Financial liabilities are contractual obligations to deliver cash or other financial assets. Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost.

c) Financial instruments (continued)

iv) Other financial instruments

Some of SIL's collective investment undertakings and the real-estate backed lending cannot be valued at prices derived from inputs that are observable for the asset, as disclosed in note 28. Where this is the case, these are valued initially at fair value, being purchase price on the date on which SIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

Managers may use the following valuation techniques to calculate the fair value of credit assets:

- Contractual cashflows from the credit asset are projected forwards to their expected payment date;
- The probability of default, loss given default and exposure at default are used to project expected credit losses; and
- The cash flows, net of expected credit losses, discounted back to their present value using the appropriate market discount rate at the reporting date.

The discount rate can depend on the following factors:

- Risk free interest rates and other similar benchmark interest rates;
- Prevailing credit spreads for the given type of asset;
- Currency; and
- Duration

The selection of discount rate needs to be considered carefully because some of the above items are easily observable (e.g. the risk free rate) and others are unobservable (e.g. prevailing credit spreads). In some case the observable and unobservable factors are inversely correlated so as one increases the other reduces. Managers may generally calculate the implied discount rate at initial recognition and make adjustment to this for known changes at the reporting date. A Valuation Committee at each of the sub-fund managers holding the investments is responsible for approving the appropriate discount rate to use in the fair value calculations and will take into consideration the above requirements along with any changes in reference rates that are deemed material. The valuations are subject to regular independent review.

v) Foreign exchange hedges

Foreign exchange hedges represent fair value hedges which are held to mitigate the risk of current movements on debt instruments denominated in currencies other than Sterling. They are initially measured at fair value. Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise.

vi) Impairment of financial assets

Assessment

At the statement of financial position date, SIL assesses its financial assets for objective evidence that an impairment loss has occurred.

Objective evidence that financial assets are impaired can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

Measurement

Any impairment losses on assets are recognised immediately through the income statement. The amount of the loss is the difference between:

- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate).

The amount of the impairment loss on assets is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

vii) Gains less losses arising from financial assets

Gains less losses arising from financial assets represents unrealised fair value movements of assets held at fair value through income or expense.

d) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Banking facilities that are repayable on demand and form an integral part of SIL cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

e) Offsetting

FRS 103 prohibits the offsetting of reinsurance assets against the related insurance liabilities unless the appropriate legal requirements are met. Financial assets and liabilities arising under the quota share arrangements are offset and the net amount reported in the statement of financial position as there is a legally enforceable right to set off the amounts, and there is an intention to settle on a net basis. The contractual terms of the funds withheld quota share agreement require such a set-off of associated amounts.

Other financial assets and liabilities are offset, with the net amount reported in the statement of financial position, where there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

f) Income tax

Tax in the income statement for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

When there is uncertainty over the income tax treatment, if it is probable that a particular tax treatment is accepted, SIL determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in SIL's corporation tax filing. If it is not probable that a particular tax treatment is accepted, SIL uses the most likely amount or the expected value of the tax treatment when determining taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates, whichever gives better predictions of the resolution of the uncertainty.

ii) Deferred tax

Deferred tax is provided using the statement of financial position method, providing for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g) Leases

Where a significant proportion of the risk and rewards of ownership of a leased asset are retained by the lessor, these contracts are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised in the income statement on a straight-line basis over the shorter of the lease term and the period ending on a date from which it is expected the prevailing market rental will be payable. All leases currently held by SIL are considered operating leases and no liability is recognised in the statement of financial position.

h) Fee and commission expenses

Fees and commission expenses mainly relates to commission payable to insurance intermediaries that is recognised over the lifetime of the related policy. All other fees and commission expenses are recognised on an accruals basis as the service is provided.

i) Employee benefits

SIL operates a defined contribution pension plan which received fixed contributions from the Company. The Company's legal or constructive obligation for this plan is limited to those contributions. Contributions are recognised as an employee benefit expense when they fall due.

j) Dividends to shareholders

Dividends are only recognised in the annual report and accounts by SIL once they have been approved by the Board.

4. Use of estimates and judgments

The preparation of the annual report and accounts requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

General insurance contracts – assumptions, changes in assumptions and sensitivity

i) Basis of assessing liabilities

SIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- projecting historic claims payment and recoveries data;
- projecting numbers of claims;
- deriving average costs per claim to apply to claim numbers; and
- projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

Detailed claims data, including individual case estimates, are used to derive patterns in average claims costs and timings between occurrence and estimate/payment of claims. The most common method used is the chain ladder method. This technique involves the analysis of historical claims development trends and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident quarter, which is not yet fully developed, to produce an estimated ultimate claims cost for each accident quarter. A degree of judgment is required in selecting the most appropriate development factors.

The chain ladder method can be volatile for relatively undeveloped origin periods so a Bornhuetter-Ferguson/Cape Cod method is often used in such cases. These methods use some prior expectation of the ultimate claims and stabilise the projected ultimate by weighting between the prior expected ultimate and that projected based on the assumed development factors. The Cape Cod method differs from the Bornhuetter-Ferguson method in that it uses a trending of ratios (such as the average cost) to arrive at a prior expected ultimate for use in the projections.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to exposure within the electric industry.

Discounted reserves in respect of periodic payment settlements are £63.3m (2021: £55.7m) and historic liability claims from the electric industry discounted reserve amounts to £2.0m (2021: £2.1m). The impact of the unwinding of the discounting in the year was £1.0m (2021: £0.9m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 41 to 43.

The historic liability claims from the electric industry reserve was based on a report produced for the industry in March 2022 by Willis Towers Watson, an actuarial consultancy. This gave Willis Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2021. This was the most recent report available when SIL calculated its year end 2022 reserves.

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities and provisions are set to be adequate to cover the anticipated eventual cost. A management margin is added to the 'actuarial best estimate', so that, in most years, no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, hence, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the quantum of the provisions established. The Board regularly commissions an independent third party review, typically undertaken every two years, to ensure the reserves are reasonable.

The overall objective of SIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the Actuarial Function Actuary in consultation with the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer. The Board has a risk appetite that adopted reserves will include a management margin above the actuarial best estimate. This margin is commonly expressed as a percentage of the best estimate reserve, and the risk appetite is that it should fall between 5-10% for the motor and household lines of business. The amount of margin held at any given time is determined by the Chief Financial Officer taking into account current causes of uncertainty in the reserve. The Company's reserves are within this risk appetite.

Quarterly reports are produced by the actuarial team and presented to SIL's Chief Financial Officer in order to advise management of the performance of the business against plan. These reports form the basis of reporting the performance to the Board.

4. Use of estimates and judgments (continued)

ii) Key assumptions

Principal assumptions underlying the claims provisions include:

- The accuracy of individual case estimates applied by claims handlers, particularly in respect of large individual motor claims;
- The future development pattern for claims payments and incurred amounts being in line with those observed in the past. Delays to medical and legal access remain, following the Covid-19 pandemic, which have disrupted this assumption, resulting in judgment being applied to allow for delays in recognition of some incurred amounts;
- Allowance for future inflation rates being different to those implied in the claims data;
- The pattern of future claims notifications relating to mesothelioma claims decaying as projected; and
- For bodily injury claims, allowance has been made for:
 - i. use of the appropriate Ogden Tables;
 - ii. awards for general damages in accordance with the 16th edition of the Judicial College Guidelines;
 - iii. a proportion of large claims being settled by periodic payments;
 - iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims; and
 - v. the interest rate used to discount the value of future payments from claims settled by Periodical Payment Orders.

Inflation

In light of current high levels of inflation, particular consideration has been given at the end of 2022 to the need to make additional allowance within reserves for the possible impact of continuing high inflation, in addition to the allowance already implicit in individual case estimates. A combination of explicit allowance and implicit judgments have been made which have increased the reserve by £7.7m, net of reinsurance.

A sensitivity of a one percentage point increase in the rate of inflation for one year would increase the costs of outstanding claims by £2.8m, net of reinsurance. The outstanding reserves are predominantly the larger or more complex claims which take longer to settle, and for which inflation is masked by mix volatility, and therefore this estimate is subject to considerable uncertainty.

Movement in insurance liabilities

The gross insurance provision of £325.5m (2021: £331.1m) for claims and claims handling costs arising in respect of prior years includes an increase in reserves of £41.5m (2021: £34.3m). This movement is as a result of the adverse development in Motor large bodily injury claims and a strengthening of legacy employer's liability reserves, reported as Fire and Accident (which includes Home) in the table below:

	2022	2021
Gross		
Fire and Accident increase of reserves	(0.8)	(5.1)
Motor increase of reserves	(40.5)	(15.5)
Increase in claims handling reserves	(0.2)	(13.7)
	<hr/>	<hr/>
Gross movement in insurance liabilities	(41.5)	(34.3)
Movement in reinsurance	14.0	7.7
	<hr/>	<hr/>
Net movement in insurance liabilities	(27.5)	(26.6)

Fair values of financial assets and liabilities

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the annual report and accounts:

Financial investments

The fair value of listed securities is based on market prices provided by independent, external pricing sources at the statement of financial position date without any deduction for transaction costs. The fair value of unlisted securities is based on independent valuations which are updated at least quarterly.

5. Net earned premiums

	2022	2021
Gross premiums		
Gross written premiums	(1.5)	9.9
Change in unearned premium provision	1.1	167.2
	<u>(0.4)</u>	<u>177.1</u>
Gross earned premiums		
Outward reinsurance premiums		
Premiums ceded	(0.3)	(6.1)
Change in unearned premium provision	(0.1)	(5.6)
	<u>(0.4)</u>	<u>(11.7)</u>
Premiums ceded to reinsurers		
	<u>(0.4)</u>	<u>(11.7)</u>
Net earned premiums	<u>(0.8)</u>	<u>165.4</u>

6. Other income

	2022	2021
Other technical income, net of reinsurance		
Fee income	0.4	5.6
Reinsurance commission	(2.1)	(0.8)
	<u>(1.7)</u>	<u>4.8</u>

Fee income is in respect of policy administration fees and commission from third party arrangements, predominantly within Motor.

Reinsurance commission relates to profit commission due to reinsurers under reinsurance arrangements. For further details see note 3a, section v, *Profit commission due under reinsurance arrangements* on page 22.

7. Net claims paid

	Note	2022	2021
Gross claims paid			
Current year claims		0.6	66.8
Prior year claims		108.2	165.7
		<u>108.8</u>	<u>232.5</u>
Gross claims paid	20	108.8	232.5
Less salvage and subrogation			
Current year claims		-	(4.1)
Prior year claims		(8.7)	(16.3)
		<u>(8.7)</u>	<u>(20.4)</u>
Salvage and subrogation received		(8.7)	(20.4)
		<u>(8.7)</u>	<u>(20.4)</u>
Claims paid		100.1	212.1
Less amounts receivable from reinsurers			
Current year claims		-	(0.5)
Prior year claims		(21.6)	(40.6)
		<u>(21.6)</u>	<u>(40.6)</u>
Amounts receivable from reinsurers	20	(21.6)	(41.1)
		<u>(21.6)</u>	<u>(41.1)</u>
Net claims paid		<u>78.5</u>	<u>171.0</u>

8. Net operating expenses

	2022	2021
Commission (received)/ paid	(0.1)	0.8
Change in deferred commission	-	6.1
Other acquisition expenses	-	8.8
Administration expenses	8.1	35.2
	8.0	50.9

SIL has a small number of employees to oversee key functions, with other services provided by Markerstudy Insurance Services Limited. Key management compensation is disclosed in note 27. Staff costs included within administrative expenses are shown below. Included within the administration expenses is £0.2m (2021: £0.1m) paid by SIL in respect of regular pension contributions.

Staff costs

	2022 £'000	2021 £'000
Wages and salaries	3,331	1,974
Social security costs	636	326
Pension costs - defined contribution scheme	169	147
	4,136	2,447

Average number of employees

	2022	2021
Administration	8	8
Management	7	7
	15	15

Amounts payable to auditors

	2022 £'000	2021 £'000
Audit of these financial statements	510	510

The above amounts are exclusive of VAT.

9. Investment return

	2022	2021
Interest and similar income:		
Deposits with credit institutions	0.1	0.1
Listed debt securities	8.6	5.0
Collective investments	0.4	-
	9.1	5.1
Realised (losses)/gains on investments		
Listed debt securities	(0.9)	15.4
Collective investments	-	14.3
Foreign exchange hedges	(4.0)	-
	(4.9)	29.7
Total investment return	4.2	34.8

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

9. Investment return (continued)

	2022	2021
Unrealised losses on investments:		
Listed debt securities	(19.0)	(20.8)
Collective investment undertakings	(1.0)	(10.0)
Foreign exchange hedges	1.1	-
	(18.9)	(30.8)

Realised losses on listed debt securities in 2022 mainly relate to the sale of an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian Entity. This was sold on 9 March 2022, following the Russian invasion of Ukraine, realising a loss of £1.8m.

Included in the returns for listed debt securities are a realised gain of £2.0m (2021: £0.1m) and an unrealised gain of £1.8m (2021: £0.2m) relating to foreign exchange movements on investments denominated in currencies other than GBP.

In 2021, realised gains of £29.7m were offset by unrealised losses of £30.8m. This effect was mainly due to the crystallisation of previously recognised unrealised gains on those assets which were sold as part of a decision to change investment manager.

10. Investment expenses and charges

	2022	2021
Investment expenses and charges:		
Other interest expense	(0.8)	1.4
Investment management expenses	3.7	1.8
	2.9	3.2

11. Segmental analysis

Segmental results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Business segments

SIL comprises the following segments:

- Motor** Private motor car and motor cycle, individual commercial vehicles.
- Home** Domestic buildings, contents and personal possessions.
- Other** Commercial risks covering property, liability, financial loss, and motor fleet. Other minor personal risks, pet, run off of inwards reinsurance liabilities and finance costs.

Segmented income statement for the year ended 31 December 2022

	Motor	Home	Other	Total
Gross premiums written	(0.8)	(0.7)	-	(1.5)
Gross premiums earned	(0.3)	(0.1)	-	(0.4)
Gross claims incurred	(37.6)	(2.0)	0.9	(38.7)
Gross other technical income	0.4	-	-	0.4
Gross operating expenses	(7.2)	(0.3)	(0.5)	(8.0)
Reinsurance balance (including quota share)	12.0	(0.1)	(0.6)	11.3
Balance on the technical account for general business	(32.7)	(2.5)	(0.2)	(35.4)

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

11. Segmental analysis (continued)

Segmented income statement for the year ended 31 December 2021

	Motor	Home	Other	Total
Gross premiums written	2.5	7.4	-	9.9
Gross premiums earned	130.5	46.6	-	177.1
Gross claims incurred	(133.5)	(20.6)	(7.2)	(161.3)
Gross other technical income	4.6	0.9	-	5.5
Gross operating expenses	(44.3)	(6.6)	-	(50.9)
Reinsurance balance (including quota share)	(1.2)	(4.0)	1.5	(3.7)
Balance on the technical account for general business	(43.9)	16.3	(5.7)	(33.3)

Commissions for the year relating to direct insurance business amounted to income of £0.1m (2021: expense of £6.9m). All insurance contracts are concluded in the United Kingdom.

12. Income tax

	2022	2021
Current tax		
UK tax credit for the current year	-	2.1
UK tax charge for the prior year	-	(0.7)
Total current tax credit	-	1.4
Deferred tax		
Origination and reversal of timing differences	0.5	4.1
Adjustment in respect of previous periods	-	0.1
Effect of tax rate change	-	(0.1)
Total deferred tax credit	0.5	4.1
Total tax credit recognised in the income statement	0.5	5.5

Further information about deferred tax is presented in note 21.

Reconciliation of effective tax rate

The tax charge in the income statement differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	2022	2021
Loss before taxation	(53.0)	(32.5)
Tax calculated at domestic corporation tax rate of 19% (2021: 19%)	10.1	6.2
Effect of:		
Adjustment in respect of prior years	0.1	(0.6)
Revision of deferred tax to 25%	-	(0.1)
Deferred tax not provided	(9.7)	-
Income tax credit	0.5	5.5

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

13. Financial investments

	2022	2021
Corporate bonds	168.7	258.4
Gilts	41.8	60.1
Other government bonds	80.2	57.9
Real-estate backed lending	15.2	3.5
Collective investment assets	17.8	18.6
Foreign exchange hedges	1.1	-
	324.8	398.5

At 31 December 2022, corporate bonds, gilts and other government bonds of £173.3m (2021: £200.9m) are expected to be recovered more than 12 months after the reporting date. All other amounts in the current and prior year are expected to be recovered within one year. There are no secured deposits included in the above figures.

£2.4m (2021: £3.5m) of the real-estate backed lending is expected to be recovered more than 12 months after the reporting date.

The collective investment assets include investments in funds of European asset-backed credit and global credit. These funds have no maturity date and units are readily tradeable.

14. Other debtors

	2022	2021
Accounts receivable	1.2	0.5
Insurance premium tax debtor	0.1	0.1
	1.3	0.6

15. Cash and cash equivalents

	2022	2021
Cash at bank	41.6	38.8
Money market funds	56.7	112.3
	98.3	151.1

Included in cash and cash equivalents is £36.4m (2021: £22.5m) held in SIL's custodian account for investment purposes. A further £56.7m is held in money market funds for investment purposes (2021: £112.3m).

16. Deferred acquisition costs

	2022	2021
At the beginning of the financial year	0.1	15.0
Deferred acquisition cost additions	-	0.6
Amortisation	(0.1)	(15.5)
	-	0.1

17. Share capital

	2022	2021
Authorised	38.0	208.0
Issued and fully paid		
38,000,000 (2021: 208,000,000) ordinary shares of £1 each	38.0	208.0

On 15 September 2022, 170,000,000 ordinary shares were cancelled and extinguished by special resolution.

The ordinary shares have attached to them full voting, dividend and capital distribution rights. The ordinary shares do not confer any rights of redemption.

18. Retained earnings and other reserves

	2022	2021
Retained earnings		
At the beginning of the financial year	(28.6)	(1.6)
Cancellation of ordinary shares	170.0	-
Loss for the financial year	(52.5)	(27.0)
At the end of the financial year	88.9	(28.6)
	2022	2021
Other reserves		
Capital reserve	57.1	57.1
	57.1	57.1

Any retained earnings would represent amounts available for dividend distribution to the equity shareholder of SIL, subject to certain conditions being met.

The capital reserve represents a non-refundable capital contribution from a former parent company, the Co-operative Banking Group Limited, and is distributable.

19. Provision for unearned premiums

	Gross 2022	Reinsurance 2022	Net 2022	Gross 2021	Reinsurance 2021	Net 2021
At the beginning of the financial year	1.1	(0.1)	1.0	168.3	(5.7)	162.6
Increase in the financial year	(1.5)	(0.3)	(1.8)	9.9	(6.2)	3.7
Release in the financial year	0.4	0.4	0.8	(177.1)	11.8	(165.3)
Movement in the financial year	(1.1)	0.1	(1.0)	(167.2)	5.6	(161.6)
At the end of the financial year	-	-	-	1.1	(0.1)	1.0

20. Claims outstanding

Change in insurance contract liabilities (net of salvage and subrogation)

	Gross	Unexpired risk provision	Salvage & Subrogation	Net
2022				
At the beginning of the financial year	392.2	0.2	(12.8)	379.6
Movement in the financial year	(66.1)	(0.2)	4.9	(61.4)
At the end of the financial year	326.1	-	(7.9)	318.2
2021				
At the beginning of the financial year	462.4	-	(32.0)	430.4
Movement in the financial year	(70.2)	0.2	19.2	(50.8)
At the end of the financial year	392.2	0.2	(12.8)	379.6

Claims and claims handling costs

	Gross 2022	Reinsurance 2022	Net 2022	Gross 2021	Reinsurance 2021	Net 2021
Claims reported	296.3	(86.6)	209.7	349.6	(108.6)	241.0
Claims incurred but not reported	83.9	(15.5)	68.4	102.2	(25.8)	76.4
Claims settlement expenses	12.0	-	12.0	10.6	-	10.6
Unexpired risk provision	0.2	-	0.2	-	-	-
	392.4	(102.1)	290.3	462.4	(134.4)	328.0
Quota share	-	37.2	37.2	-	74.0	74.0
At the beginning of the financial year	392.4	(64.9)	327.5	462.4	(60.4)	402.0
Claims paid during the year	(108.8)	21.6	(87.2)	(232.5)	41.0	(191.5)
Increase/(decrease) in liabilities:						
Arising from current year claims	1.2	0.1	1.3	128.0	(1.0)	127.0
Arising from prior year claims	41.5	(13.9)	27.6	34.3	(7.7)	26.6
Movement in unexpired risk provision	(0.2)	-	(0.2)	0.2	-	0.2
	(66.3)	7.8	(58.5)	(70.0)	32.3	(37.7)
Quota share	-	(18.1)	(18.1)	-	(36.8)	(36.8)
Total movement	(66.3)	(10.3)	(76.6)	(70.0)	(4.5)	(74.5)
Claims reported	258.2	(80.1)	178.1	296.3	(86.6)	209.7
Claims incurred but not reported	63.4	(14.2)	49.2	83.9	(15.5)	68.4
Claims settlement expenses	4.5	-	4.5	12.0	-	12.0
Unexpired risk provision	-	-	-	0.2	-	0.2
	326.1	(94.3)	231.8	392.4	(102.1)	290.3
Quota share	-	19.1	19.1	-	37.2	37.2
At the end of the financial year	326.1	(75.2)	250.9	392.4	(64.9)	327.5

The balance in the quota share funds withheld account is £25.3m (2021: £45.2m). The figures for quota share in the table above represent the quota share funds withheld net of the expected future profit commission of £6.2m (2021: £8.0m).

Included within the movement in claims liabilities is £2.1m gross, £1.0m net (2021: £1.9m gross, £0.9m net), being the unwind of discounting relating to Periodic Payment Order (PPO) claims.

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

20. Claims outstanding (continued)

Analysis of claims development

	Accident year										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Gross of reinsurance											
At end of the accident year:	368.1	284.7	285.5	353.5	367.8	401.7	414.6	299.1	115.7	1.2	2,891.9
One year later	346.9	269.0	268.1	371.6	358.0	393.0	412.8	290.9	114.8		2,825.1
Two years later	343.1	263.9	259.9	351.0	353.4	394.4	420.2	299.2			2,685.1
Three years later	335.4	260.7	259.2	345.5	354.9	402.5	433.8				2,392.0
Four years later	340.6	259.5	256.2	353.1	354.6	416.7					1,980.7
Five years later	336.2	258.2	256.3	351.0	356.0						1,557.7
Six years later	337.5	258.9	257.7	349.8							1,203.9
Seven years later	338.3	258.8	257.6								854.7
Eight years later	338.5	258.7									597.2
Nine years later	338.7										338.7
Estimate for cumulative claims	338.7	258.7	257.6	349.8	356.0	416.7	433.8	299.2	114.8	1.2	2,826.5
Cumulative payments to date	(334.0)	(258.2)	(257.1)	(333.8)	(342.5)	(381.3)	(373.3)	(241.0)	(81.6)	(0.6)	(2,603.4)
Gross outstanding claims liabilities	4.7	0.5	0.5	16.0	13.5	35.4	60.5	58.2	33.2	0.6	223.1
Provision for prior years											98.5
Gross outstanding claims liabilities											321.6
Gross claims reported											258.2
Gross claims incurred but not reported											63.4
Gross outstanding claims liabilities											321.6

Included in the analysis above is £63.3m (2021: £55.7m) of discounted reserves relating to PPOs. PPO reserves are discounted at 4.2% (2021: 4.2%), reflecting the expected yield on the investments held to back the PPO claims, adjusted for credit risk. Undiscounted reserves relating to PPOs are £134.7m (2021: £122.4m). The above analysis excludes claim handling expenses.

	Accident year										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Net of reinsurance											
At end of the accident year:	350.9	275.9	267.9	347.7	268.3	294.4	295.0	219.1	114.2	1.2	2,434.6
One year later	330.4	260.6	256.8	357.8	262.1	289.1	293.1	210.6	113.5		2,374.0
Two years later	329.7	255.0	247.7	339.3	259.6	289.9	297.4	215.9			2,234.5
Three years later	322.0	251.3	247.5	335.9	260.6	295.3	305.9				2,018.5
Four years later	325.8	252.0	245.6	338.5	260.4	305.3					1,727.6
Five years later	325.0	250.9	245.5	337.2	261.4						1,420.0
Six years later	326.4	251.5	247.0	336.8							1,161.7
Seven years later	326.9	251.6	246.8								825.3
Eight years later	327.1	251.5									578.6
Nine years later	326.9										326.9
Estimate for cumulative claims	326.9	251.5	246.8	336.8	261.4	305.3	305.9	215.9	113.5	1.2	2,365.2
Cumulative payments to date	(326.0)	(251.0)	(246.3)	(328.0)	(251.9)	(280.5)	(266.5)	(176.9)	(80.5)	(0.6)	(2,208.2)
Net outstanding claims liabilities	0.9	0.5	0.5	8.8	9.5	24.8	39.4	39.0	33.0	0.6	157.0
Provision for prior years											70.3
Net outstanding claims liabilities											227.3
Net claims reported											178.1
Net claims incurred but not reported											49.2
Net outstanding claims liabilities											227.3

Included in the analysis above is £29.9m (2021: £24.6m) of discounted reserves relating to PPOs.

It is to be expected that releases will normally be made to prior years' claims as current reserves are set such that no adverse deterioration is expected. However, from time to time the random occurrence of significant large individual claims or events being worse than expected can give rise to a required strengthening, in addition to normal claims development being adverse. The 2022 result includes an increase on prior year reserves of £27.5m (2021: £26.6m).

The above figures exclude claim handling expenses and quota share funds withheld.

21. Taxation

	2022	2021
Current tax		
Asset at the beginning of the financial year	2.4	1.3
Prior year adjustment	-	(0.7)
Tax credited to the income statement	-	2.1
Tax on structured settlements	0.2	-
Tax received during the financial year	-	(0.3)
	<hr/>	<hr/>
Asset at the end of the financial year	2.6	2.4
Asset relating to amount due from HMRC	2.6	2.4
	<hr/>	<hr/>
Asset at the end of the financial year	2.6	2.4
	<hr/>	<hr/>
	2022	2021
Deferred tax liability		
Liability at the beginning of the financial year	(0.5)	(4.6)
Tax credited to the income statement	0.5	4.1
	<hr/>	<hr/>
Liability at the end of the financial year	-	(0.5)
	<hr/>	<hr/>
Analysis of deferred tax liability		
Capital allowances on fixed assets	0.2	0.2
FRS 102 transitional adjustments	(4.1)	(4.5)
Tax losses	3.9	3.8
	<hr/>	<hr/>
Liability at the end of the financial year	-	(0.5)
	<hr/>	<hr/>

On 3 March 2021, the UK Government announced that the main UK corporation tax rate will increase from the current rate of 19% to 25% from 1 April 2023, and this was substantively enacted on 24 May 2021. As a result, existing timing differences on which deferred tax has been provided may unwind in periods subject to either the 19% or 25% rates. The deferred tax liability at 31 December 2022 has been calculated based on an estimate of the rate at which the asset will reverse, using the tax rates substantively enacted at the statement of financial position date, being 25%. Any difference in the liability for timing differences unwinding prior to 1 April 2023 is considered to be immaterial.

A deferred tax asset has not been recognised in relation to carried forward tax losses of £51.1m (2021: £nil) on the basis it is uncertain whether the Company will generate future taxable profit against which the deductible temporary difference may be utilised.

22. Operating leases

SIL has one lease agreement in place, which is cancellable with a three month notice period.

23. Contingent assets and liabilities

SIL does not have any contingent assets.

As a financial services provider, SIL is subject to extensive and comprehensive regulation. It must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst SIL believes there are no unidentified areas or failures to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

24. Contingent contract obligations

SIL has no contingent contract obligations.

25. Risk management and capital management

i) Risk management

SIL is exposed to insurance risk, via the contracts that were issued historically, and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way SIL manages them.

Our approach to risk management

The Risk Management Framework (RMF) identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across SIL.

Effective Risk Management is essential for the achievement of business success and is everyone's responsibility. Customers, shareholders, regulators and other stakeholders expect SIL to manage risk effectively.

SIL operates a Risk Management Framework (RMF) that is well embedded.

The RMF has been built around the 'Three Lines of Defence' model as follows:

- First line: manage risk in day to day operations.
- Second line: provide oversight and challenge.
- Third line (Internal Audit): provide assurance that the RMF is being executed as intended.

As SIL is largely an outsourced model, much of first line work is carried out by third parties, with finance and risk accountability being assumed by the SIL management team.

Risk assessment of SIL

SIL assesses the principal risks facing the business annually and a projection of how these risks are expected to evolve as the risk profile changes is completed as part of the ORSA process. These risks are summarised on page 6.

The SIL RMF requires the Executive Team to attest that they understand the risks and controls in their areas of accountability and support an open risk management culture. In support of the attestation, each Executive is required to undertake a Risk and Control Self-Assessment (RCSA), which identifies the risks to the achievement of their objectives and the controls in place to mitigate these risks, together with an assessment of the effectiveness of the controls (Design and Performance with appropriate testing of control performance). The RCSA is designed to cover all material controls including financial, operational and compliance controls as well as the minimum requirements set out in SIL's risk policies.

Responsibilities map

SIL maintains a Responsibilities Map which sets out the accountabilities delegated by the CEO to each member of the Executive Team, which are also reflected within their individual job descriptions. These accountabilities include the Senior Managers & Certification Regime (SM&CR) senior management function and prescribed responsibilities which are considered in conjunction with delegated authorities.

Risk management structure

The Board is responsible for approving the SIL strategy and the level of acceptable risks articulated through its statement of risk appetite. The Board is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management in place.

To assist the Board in carrying out its functions and to ensure that there are internal controls and risk management, the Board has delegated certain responsibilities to a set of Board committees and the Chief Executive Officer (CEO). The CEO has in turn, delegated elements of these responsibilities to appropriate members of the Executive. To ensure independent oversight the Chief Risk Officer (CRO) also has accountability to the Board Risk Committee (BRC).

All Board committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each committee is provided with sufficient resources to enable its duties to be undertaken.

SIL Board Risk Committee (BRC)

The purpose of the Committee is to oversee and advise the Board on current and potential risks and the overall risk framework. The Committee also oversees SIL's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed. Responsibilities include:

- Providing oversight and advice to the Board on current and potential risks and risk management strategies
- Reviewing and approving the Risk Strategy, Risk Appetite and risk limits and tolerances.
- Reviewing and challenging the design of the Risk Management Framework, recommending to the Board for approval.
- Reviewing and challenging internal controls and processes of risk management including the coverage of the risk taxonomy.

25. Risk management and capital management (continued)

Risk management structure (continued)

SIL Board Audit Committee (BAC)

The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of SIL's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors. Responsibilities include:

- Review and oversight of financial statements and annual reports before submission to the Board.
- Exercising oversight of identified risk control framework failings and weaknesses as well as management actions taken to resolve them.
- Oversight of internal and external assurance and audit.

SIL Board Investment Committee (BIC)

The purpose of the Committee is to assist the Board in discharging its responsibilities in relation to the Prudent Person Principle by overseeing the Company's out-sourced investment activities and to ensure investments are made in line with the approved strategy and mandate. Responsibilities include:

- Reviewing and recommending to the Board proposed changes to the Investment Mandate.
- Considering the implications of investment strategy on capital requirements and providing guidance to management on the appropriate balance between risk and reward.
- Review and oversight of the performance of investments against investment strategy and mandate.
- Exercising oversight of out-sourced investment managers.

SIL Remuneration and Nominations Committee (RemCo)

The purpose of the Committee is to oversee the Board and advise on nomination matters. In addition, the committee also determines the Remuneration Policy for SIL in respect of its Executive and sets/approves remuneration. Reward and remuneration arrangements for other colleagues are maintained by the CEO, with appropriate input from the Committee. Responsibilities include:

- Determining the remuneration policy for the SIL Executive, in conjunction with the Group Remuneration Committee, ensuring that this is in line with Group Remuneration policy and complies with relevant regulatory guidance.
- Having responsibility for setting the remuneration for each of the SIL Executives.
- Determining the fees payable to the Board Chair.

In addition to Board level committees, there are a number of Executive Management Committees:

SIL Executive Committee (ExCo)

The purpose of ExCo is to monitor performance of the business, oversee its customer and business strategic direction, and ensure both timely issue resolution and decision making for matters and decisions referred to it from sub-committees. Responsibilities include:

- Ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for SIL.
- Ensuring that all key strategic elements are governed fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management.
- Management of mitigating actions relating to any risks to the strategic direction, plans and business model of SIL.

Insurance Services and Run Off Agreement (ISARA) Governance Committee

The purpose of the ISARA Committee is to oversee the operational performance of the service contracts with MISL (the ISARA).

Senior Management Committees

SIL has other committees that advise and support the CEO and members of the senior management team in carrying out their responsibilities, and provide detailed oversight and monitoring. These include the Reserving Committee and the Investment, Finance & Capital Committee (IFCC).

25. Risk management and capital management (continued)

Level 1 risks

Risks are classified into Level 1 and Level 2 categories. Business activity can be exposed to one or a combination of the following risk types. The Level 1 risks are the highest category of inherent financial and non-financial risks to which SIL is exposed:

Risk Type	Definition	Page
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.	40
Conduct risk	The risk that SIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.	40
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation SIL may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities.	40
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements.	41
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.	41
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.	43
Liquidity risk	The current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses.	44
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations ¹ .	45

¹ This does not include credit risk arising from investments such as corporate bonds which are captured as level 2 market risks.

The most material risks that SIL is exposed to are reserve risk and market risk. These are exacerbated in the current environment by the high rate of inflation affecting outstanding claims and the volatile nature of investment markets.

A Risk Framework Owner (RFO) is appointed for each Level 1 risk category. The RFO is required to define and document a risk framework; this comprises a Risk Policy and framework documents and risk appetite tolerance metrics. The RFO is required to certify to the effectiveness of the control framework used to manage the Risk on a semi-annual basis.

Strategic and business risk

Strategic and Business risk is defined as the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors, resulting in lost earnings and capital. Strategic risks cover those risks over the longer term time horizon around the strategic plan and they align to the strategic risk profile. Business risks are in year performance against plan and align to the material risk profile.

SIL's financial objective in managing these risks is to hold a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and meet liabilities as they fall due. The Board has defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to management, BRC and Board.

Conduct risk

Conduct risk is the risk that SIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers. Accordingly, conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with close scrutiny from the FCA. This risk has significantly reduced since entering run-off.

Regulatory risk

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation SIL may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. SIL's objective is to be compliant with all relevant regulatory requirements and manage its regulatory risks so as to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.

Regulatory risk has reduced significantly since entering into run-off.

25. Risk management and capital management (continued)

Insurance risk

Following the expiry of SIL's last insurance policies in March 2022, it is no longer exposed to Premium Risk or Catastrophe Risk.

Insurance (reserving) risk comprises the risk of loss resulting from adverse change in the value of insurance liabilities. The exposure is for Motor and Home business, together with other classes of business, mainly comprising employer's liability and commercial motor business.

Key risks under Motor policies for a run off book are in respect of uncertainty with respect to the ultimate cost of bodily injury to third parties, which are exposed to judicial, legislative and inflationary changes. As run off progresses, motor property damage is becoming less material. Home policies are also less exposed to property type claims as run off progresses, and subsidence is the longest tailed type of claim. Risks exist with respect to historical classes of business, in particular the liability class which is long tailed and exposed to latent claims.

At the statement of financial position date there were no significant concentrations of insurance risk.

Insurance risk – objective and strategy

SIL outsources the management of insurance risk to a third party (MISL). Oversight is in place to ensure that reserve risk volatility is minimised through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as fraud databases and the use of claims specialists. The basis for assessing claims provisions is set out in note 4 (pages 27 to 28).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. SIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. SIL manages this risk through the Reserving Committee, which supports the CFO in their responsibility to formally review claims reserves on a quarterly basis.

Insurance risk – reinsurance

SIL uses reinsurance to manage insurance risk.

In 2021 and until the expiry of its final policies in March 2022, SIL had two main reinsurance programmes in place: catastrophe excess of loss cover and motor excess of loss cover.

Quota share reinsurance arrangements relating to accident years from 2017 to 2020 remain in force and enhance the Standard Formula capital coverage by reducing exposure to reserve risk.

Market risk

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

SIL invests in high-quality fixed and variable interest bonds issued by corporations ("corporate bonds"), the UK government ("gilts") and overseas governments ("other government bonds"). The value of, or income from, assets held is subject to volatility from changes in both market interest rates and additional spreads related to the specific credit-worthiness of the issuer ("credit-spreads"). Proceeds from maturing investments are also subject to risk over the future return on reinvestment.

SIL is also exposed to market interest rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and regulatory basis. However, short term insurance reserves (normally less than five years) are not directly affected by market interest rates as they are undiscounted.

SIL invests in a limited amount of index linked bonds, real-estate backed lending and collective investment funds which are of a more long term nature to match the long term liabilities. In addition to the risks listed above, this portfolio is subject to risks associated with property values. This is mitigated by restricting the loan to value ratio on real-estate backed lending as well as limiting the duration of these investments.

SIL wrote contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds include investments denominated in Euros and US Dollars as well as sterling, and consequently there is an exposure to currency risk, however this is minimised through the use of currency hedges.

SIL is not exposed to any pensions risk.

In summary, the key market risks that SIL is exposed to are:

- Fluctuations in interest rates, allowing for the impact on both asset and liability values, and investment income.
- Movements in credit-spreads which impact the market value of corporate bonds.
- Changes in the relationship between interest rates which have similar but not identical characteristics.
- Fluctuations in the market value of assets.

25. Risk management and capital management (continued)**Market risk – objective and strategy**

SIL's objective is to achieve acceptable returns through the use of highly rated government and corporate bonds while managing volatility by minimising exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

SIL's investments are managed by TwinFocus Limited. SIL has agreed investment mandates in place with the investment managers with limits for exposure by asset type, credit-rating, maximum terms and maximum exposure to individual counterparties.

SIL manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties. The IFCC and Investment Committee support the CFO in overseeing the monitoring and management of these risks and exposures against limits.

The investment mandate sets strategic asset allocation and limits on the types and duration of investments. The mandate has been set by considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. SIL matches the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of financial assets is measured against the investment mandate and remained within these boundaries during the period. The mean duration of insurance liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date).

	2022 (years)	2021 (years)
Insurance liabilities	6.4	4.8
Financial assets	1.2	1.3

The relatively low maturity profile of the financial assets reflects the asset strategy which was adopted in 2021. The main investment portfolio, which supports the run-off of the majority of the claims, has a duration of less than one year. Assets supporting the long-term claims have a longer duration, as explained below, with the strategy being that these will be reinvested on maturity.

Specific assets are used to match periodic payment orders (PPOs) and provisions relating to exposure within the historic liability claims from the electricity industry (EIROS) by amount and appropriate to the long duration of these liabilities. In order to do this, an expert opinion on claimants' life expectancy is used along with an expectation of long term average earnings.

Mean durations for these exposures are:

2022	Amount	Duration
Periodical payments and EIROS		Years
Insurance liabilities	31.0	15.4
Financial assets		
Cash	24.4	n/a
Gilts	18.8	8.5
Real-estate backed lending	15.2	0.2
Collective investment assets	17.8	1.9
2021	Amount	Duration
Periodical payments and EIROS		Years
Insurance liabilities	25.2	16.6
Financial assets		
Cash	27.6	n/a
Gilts	27.5	8.8
Real-estate backed lending	3.5	1.5
Collective investment assets	18.6	2.5

Assets held against the PPO liabilities are of shorter duration than the liabilities themselves, as the asset strategy is that these assets are expected to be reinvested at maturity.

Owing to the low value of the remaining EIROS liabilities, these are now managed on a combined basis with the PPOs, and so no specific assets are held at the year end in relation to the EIROS liabilities.

Insurance liabilities are shown net of reinsurance. The liabilities are assessed against assets on a net basis, as this represents SIL's residual risk. Gross liabilities in respect of periodic payment settlements are £63.3m (2021: £55.7m) and EIROS claims amount to £2.0m (2021: £2.1m).

25. Risk management and capital management (continued)

Market risk – sensitivity analysis

The most significant aspect of market risk to which SIL is exposed is the effect of changes in value of investments, which directly impacts the profits reported under UK GAAP, and changes in credit-spreads on corporate bonds, which also affect SIL's solvency.

An increase of 100 basis points in credit-spreads would reduce the value of SIL's assets at the end of the financial year by approximately £2.5m (2021: £3.1m). This would reduce SIL's solvency (on all bases) by £2.0m net of tax (2021: £2.5m), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment (under Solvency II) to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

An increase in the discount rate of 100 basis points would decrease the value of gross PPO reserves by £7.4m and the value of net PPO reserves by £4.0m. A decrease in the discount rate of 100 basis points would increase the value of PPO reserves by £9.5m and the value of net PPO reserves by £5.2m.

Climate change

SIL has incorporated Climate Change risk into its Risk Management Framework and Investment Mandate and has assigned an owner who is responsible for the management and reporting of climate change.

SIL has considered its exposure to climate change risk as at the end of December 2022. SIL has no live policies on risk after March 2022, meaning the exposure to climate change in the short term is limited. It is anticipated that the majority of the short tail claims will be settled within 12 to 18 months after the last policy expires. There will remain some longer tail claims, predominantly bodily injury, which are not expected to settle for a number of years. Climate change is not expected to have a material impact on the cost of these claims or on the insurance related assets.

SIL does have an exposure to climate risk in its investment portfolio and, therefore, in market risk. The risks include a fall in the value of corporate bonds in carbon intensive companies due to stranded assets or legislation to deal with climate change. Furthermore, as more investors move to sustainable investment strategies there is the risk that investments that fall outside these criteria fall in price as a result.

A review of SIL's investment portfolio has concluded that there is not an undue level of risk. Most of SIL's investment portfolio is held in corporate bonds and gilts, which are intended to closely align with the projected claims settlement patterns and, as such, are heavily weighted to mature within the next few years.

Many of the global climate reforms are targeting tangible change from the mid-point of this decade through to 2050. As SIL's outstanding claims and investment portfolio will be significantly reduced by the end of 2025, SIL considers that there is limited impact, particularly in the short to medium term, from climate change on its current business model and liabilities.

It is incumbent on SIL management, Board and investment partners to ensure that the longer term investment strategy, albeit notably limited in size, is managed effectively and minimises the risk of exposure to climate affected sectors.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. SIL's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people and technology or due to external events.

SIL has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own RFO, and is supported by underlying control standards:

- Financial Reporting Risk.
- Technology Risk (including Cyber Risk).
- Third Party Supplier Risk.
- Operational Resilience Risk.
- Information Risk.
- Financial Crime Risk.
- People Risk.

Under the operating model, MISL are responsible for managing a significant amount of SIL's operational risks.

Third Party Risk will remain high given SIL's reliance on MISL for the management of policies and claims. This is managed via the ISARA agreement and monitoring meetings that have been put in place. SIL has only a small number of staff; although this may mean that people risk is lower overall, it does increase key person dependency. This risk is managed individually with detailed succession planning and retention strategies.

SIL has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which, in 2022 included employer's liability and Directors' and Officers' insurance.

25. Risk management and capital management (continued)**Liquidity risk**

Liquidity risk is the current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses. SIL's objective is to maintain at all times, liquid resources which are adequate to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

SIL's Board sets risk appetite thresholds for both liquid and stressed investments, based on forecast cash flows, and assesses liquidity against these.

The stressed investment valuation is intended to represent the value at which assets could reasonably be sold in a short timeframe. The values of stressed investments are the market values of the investments less haircuts which are based on the credit rating of the investment. The haircuts applied to stressed investments are:

Credit Rating	Maturity	Government	Corporate
AAA to AA-	≤ 1 year	0.5%	1.5%
	> 1 ≤ 5 years	1.5%	5.5%
	> 5 years	3.0%	11.0%
A+ to BBB-	≤ 1 year	1.5%	2.5%
	> 1 ≤ 5 years	4.0%	8.5%
	> 5 years	6.0%	17.0%
BB+ and lower	All	100.0%	100.0%
Equity, collective investments & property-backed lending	N/a	100.0%	100.0%
Cash	N/a	-	-

At 31 December 2022 liquid assets of £140.1m were held against a risk appetite threshold of £33.3m. The stressed value of investments at 31 December 2022 was calculated as £328.5m versus a risk appetite threshold of £58.2m. The amounts noted in this paragraph are unaudited.

The actual and projected levels of cash and other assets held are monitored and managed through the IFCC, with oversight by the BRC and Board. In addition, in between IFCC meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity).

	Carrying value	Gross nominal outflow	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years
As at 31 December 2022								
Insurance contract liabilities	321.6	393.4	81.5	56.2	37.0	26.4	15.6	176.7
Financial liabilities at amortised cost:								
Reinsurance liabilities	0.1	0.1	0.1	-	-	-	-	-
Insurance and other payables	4.8	4.8	4.8	-	-	-	-	-
	326.5	398.3	86.4	56.2	37.0	26.4	15.6	176.7
Other liabilities	-							
Total recognised liabilities	326.5							
As at 31 December 2021								
Insurance contract liabilities	380.2	447.3	126.9	62.8	43.8	27.0	17.6	169.2
Financial liabilities at amortised cost:								
Reinsurance liabilities	0.2	0.2	0.2	-	-	-	-	-
Insurance and other payables	10.2	10.2	10.2	-	-	-	-	-
	390.6	457.7	137.3	62.8	43.8	27.0	17.6	169.2
Other liabilities	0.5							
Total recognised liabilities	391.1							

25. Risk management and capital management (continued)**Credit risk**

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. SIL does not aim to earn a return from credit risk hence its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

SIL's key credit risk exposure is from default or delay in respect of insurance receivables, where default is defined as failure to pay resulting in financial loss to SIL. The main potential cause of this would be reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries.

SIL manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on page 41 to 43 for details.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. SIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits applied when reinsurance was initially placed, and are regularly monitored by the IFCC. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

The quota share reinsurance arrangement in place throughout 2017 – 2020 operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

As at the statement of financial position date, the table below provides analysis of the credit rating of those assets subject to credit risk. SIL's policy for making provisions for possible impairment is described within the accounting policy section on page 25.

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2022						
Investment assets:						
Corporate bonds	34.2	20.9	42.4	63.0	8.2	168.7
Gilts	-	41.8	-	-	-	41.8
Other government bonds	53.1	13.2	10.6	3.3	-	80.2
Real-estate backed lending	-	-	-	-	15.2	15.2
Collective investments	-	-	-	-	17.8	17.8
Reinsurance assets	-	37.1	38.1	-	-	75.2
Insurance receivables and other assets	-	-	-	-	6.2	6.2
Cash and cash equivalents	93.1	-	5.2	-	-	98.3
	180.4	113.0	96.3	66.3	47.4	503.4

Salvage and subrogation						7.9
Assets not subject to credit risk						2.6
						513.9

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2021						
Investment assets:						
Corporate bonds	66.7	45.7	73.8	67.2	5.0	258.4
Gilts	-	60.1	-	-	-	60.1
Other government bonds	25.4	22.7	9.8	-	-	57.9
Real-estate backed lending	-	-	-	-	3.5	3.5
Collective investments	-	-	-	-	18.6	18.6
Reinsurance assets	-	33.0	31.9	-	-	64.9
Insurance receivables and other assets	-	-	-	-	11.0	11.0
Cash and cash equivalents	141.1	-	10.0	-	-	151.1
	233.2	161.5	125.5	67.2	38.1	625.5

Salvage and subrogation						12.8
Assets not subject to credit risk						2.5
						640.8

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the table. No assets held at the end of the year are past due.

25. Risk management and capital management (continued)**Currency risk**

SIL is exposed to currency risk on its investments as corporate bonds include investments denominated in Euros and US Dollars. Currency hedges are held against these assets to minimise exposure.

The table below shows the holdings of corporate bonds, gilts and other government bonds by currency and domicile of issuer.

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2022				
GBP				
UK	37.1	38.3	19.6	95.0
Europe	37.0	43.8	-	80.8
Rest of world	31.2	25.8	-	57.0
EUR				
UK	-	1.7	-	1.7
Europe	0.5	15.4	1.8	17.7
USD				
UK	-	6.7	-	6.7
Europe	4.0	5.7	-	9.7
Rest of world	7.5	14.6	-	22.1
	117.3	152.0	21.4	290.7
As at 31 December 2021				
GBP				
UK	56.3	66.0	27.5	149.8
Europe	74.3	40.1	-	114.4
Rest of world	60.6	22.9	-	83.5
EUR				
Europe	2.3	4.1	0.6	7.0
Rest of world	-	1.1	-	1.1
USD				
UK	-	2.1	-	2.1
Rest of world	6.0	12.5	-	18.5
	199.5	148.8	28.1	376.4

ii) Capital management**Objectives when managing capital**

SIL's strategy in respect of capital management is to ensure that the following objectives are met:

- It has sufficient capital to meet all regulatory requirements.
- It has sufficient additional capital above the regulatory requirements to make any breach of the regulatory requirement unlikely, ensuring that policyholders are protected.

Required capital

Under the Solvency II regulatory framework, the Prudential Regulation Authority (PRA) requires SIL to calculate a capital requirement and to hold sufficient capital to meet it.

(a) Regulatory required capital

The Solvency II regulatory regime came into force as at 1 January 2016. Under this solvency framework, SIL is required to hold capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). These measures are described below.

- SCR: The SCR is a risk-responsive capital measure, calibrated to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. SIL currently calculates its SCR using the Standard Formula (SF). The Standard Formula is calibrated based on market wide data and not on a specific firm's data, so the PRA must approve the SF SCR as being appropriate for a particular firm.
- MCR: The calculation of the MCR is prescribed under the Solvency II guidance and is set at a lower level than the SCR. Initially, the MCR is calculated by applying set factors to net technical provisions and the previous 12 months' net written premiums and is then subject to a cap of 45% and a floor of 25% of the SCR.

25. Risk management and capital management (continued)

ii) Capital management (continued)

(b) Internal required capital

Under the Solvency II regime, whilst the SF SCR determines the regulatory required capital, SIL also calculates its own view of risk called the Economic Solvency Capital Requirement (ECR). Since late-2019, SIL has estimated the ECR using an adjusted SF model on an economic basis, and this model has subsequently been further refined. This view of risk considers, amongst other things, the full run-off of risks, rather than just the risks over the next 12 months.

SIL Board sets capital risk appetite, which defines how much additional capital SIL should hold. Coverage of both the SCR (1 year basis) and ECR (ultimate basis) is considered. This was reviewed by Board in September 2021 and reapproved in September 2022. The capital coverage to meet appetite was set at the greater of 140% SCR coverage and 130% ECR coverage. These thresholds were set taking into account the impact of stress tests and the fact that SIL is in run off with fewer capital management actions available than if it were still actively underwriting.

SIL has maintained capital above all its regulatory requirements throughout 2022, and SCR and ECR coverage have been maintained above the risk appetite throughout the year. SIL reviews solvency continuously through monthly or, when appropriate, more frequent monitoring. Monthly updates and quarterly reports are provided to the Investments, Finance and Capital Committee and the Board.

In the event that SIL falls below its risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk, albeit often resulting in reduced returns. Management have identified potential actions which fall into three main categories:

- Actions to reduce insurance risk through the purchase of reinsurance.
- Actions to reduce other types of risk – for example, de-risking the investment portfolio.
- Actions to increase available capital – for example, through possible issuance of additional subordinated debt, or through reducing future planned dividend payments.

Potential actions are routinely assessed at least once a year so that contingent management actions are available.

(c) Capital composition

The policies and processes employed by SIL are designed to benefit policyholder protection by giving the business an accurate understanding of the amount and quality of capital and resources. This helps the business ensure that sufficient capital is held to absorb unexpected losses and maintain solvency.

Under the Solvency II regime capital resources are referred to as own funds. Own funds correspond to capital and reserves which can serve as a buffer against risks and absorb financial losses. Each type of own funds is classified within a tier, with tier 1 being the highest quality capital.

All of SIL's excess of assets over liabilities, which comprises share capital and retained profits calculated on a Solvency II basis, is classified as tier 1 capital. At year end 2021 SIL held £25m of ancillary own-funds, being a promise of equity backed by bank deposit in escrow, and which has required prior supervisory approval to be recognised under Solvency II as tier 2 capital. This AOF capital is no longer required and the PRA approved the cessation of this facility with effect from February 2022. Any deferred tax assets are classified as tier 3 capital. 100% of own funds held at the end of the reporting period were eligible to meet the SCR and MCR. The amounts noted in this paragraph are unaudited.

Further information, including an explanation of the valuation of assets and liabilities on a Solvency II basis, is included in the SFHL Group Solvency & Financial Condition Report published annually.

26. Parent company

Soteria Finance Holdings Limited (SFHL) is the parent and is incorporated in England & Wales as a company under the Companies Act 2006. The results of SIL are consolidated in the group headed by SFHL. This is both the smallest and the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. The financial statements of the parent organisation are available from www.soteriainsurance.co.uk.

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

27. Related party transactions

Balances at the end of the year	2022	2021
Amounts due from SFHL	0.5	0.1
Amounts due from/(to) SFHL shareholder companies:		
MISL	-	3.8
TwinFocus Limited	(0.5)	(0.3)
Transactions during the year	2022	2021
Net income from transactions with SFHL	0.4	0.6
Net expenses from transactions with SFHL shareholder companies:		
MISL	(9.5)	(32.6)
TwinFocus Limited	(1.9)	(0.7)

The figures shown above include balances and transactions with companies that were related to SIL.

Related party transactions consist of:

- Transactions with SFHL, where SIL pays expenses on behalf of SFHL and then recharges SFHL. These costs include payments made to SFHL's Directors as well as administration expenses where these are not paid directly by SFHL.
- Transactions with MISL, representing amounts charged for the provision of insurance services under an outsourcing agreement. The debtor of £3.8m at 31 December 2021 relates to premiums received by MISL on behalf of SIL.
- Investment management fees charged by TwinFocus Limited.

Key management compensation

Key management is considered to include the members of SIL Board and Executive committee members.

Details of transactions and balances with Key Management during the financial period are provided below.

	2022	2021
Salaries and short term benefits	2.4	1.5
In respect of Executive and Non-Executive Directors		
	2022	2021
Salaries and short term benefits	1.6	0.9
In respect of the highest paid director:		
	2022	2021
Salaries and short term benefits	1.0	0.5

28. Fair values of financial assets and liabilities

As described in note 4, the fair value of listed securities is based on market prices provided by independent, external pricing sources at the statement of financial position date without any deduction for transaction costs. The fair value of unlisted securities is based on independent valuations which are updated at least quarterly.

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value where the effect of discounting is immaterial.

The following table provides an analysis of financial investments that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within FRS 102, where valuations are based on:

- Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Based upon guidance issued by The Committee or European Securities Regulators (CESR), SIL classifies debt securities in level 1 only if it can be demonstrated on an individual security by security basis that the price quotes obtained are representative of actual trades in an active market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot guarantee that the prices that they provide are based on actual trades in the market. Therefore, all of the corporate bonds and gilts are classified as level 2 and valued using the market prices as at the reporting date multiplied by the number of each security held.

Level 3 investments are valued using valuation techniques described in note 3 c) iv) Other financial instruments on page 25.

Valuation of financial investments

2022	Level 1	Level 2	Level 3	Total
Financial investments	-	291.8	33.0	324.8
2021	Level 1	Level 2	Level 3	Total
Financial investments	-	384.1	14.4	398.5

There were no movements between the levels during the year and so the only movements are due to sales and purchases made in the year.

29. Events after the Reporting Period

Proposed Acquisition

The shareholders of SIL's parent company, SFHL, have entered into discussions with Pollen Street Capital (PSC) regarding the potential acquisition of SFHL by funds managed by PSC. A Section 178 notification for a proposed change in control has been submitted to the Prudential Regulatory Authority and was acknowledged by the PRA as a complete application on 22 March 2023. Any acquisition remains subject to regulatory approval and final agreement between the parties.

Dividends

On 23 February 2023, the Board recommended a dividend payment of £40m, following confirmation of non-objection from the PRA. This was approved by member resolution on 24 February 2023 and subsequently paid on 23 March 2023.

Banking Counterparties

SIL has considered the potential impact of the collapse of Signature Bank and Silicon Valley Bank, and the rescue deal for Credit Suisse, in March 2023, along with any wider implications for the banking sector. SIL had no direct exposure to Signature Bank or to Silicon Valley Bank. SIL has arrangements in place with Credit Suisse both as custodian for investment assets and as banker, but these arrangements have been managed so that the financial exposure to SIL, in the unlikely event of a failure of Credit Suisse, would be minimal. More generally, SIL's exposure to banking counterparties either through investments or banking arrangements is well spread over a number of institutions and operated within prudent limits on exposure to counterparty risk.

Soteria Insurance Limited

Registered under the Companies Act 2006

Registered office: 7th Floor, Arndale House, 122a Market Street, Manchester, M4 3AG

Registered number: 12698289

www.soteriainsurance.co.uk