Saturn Holdings Limited
Annual report and accounts 2023

Contents

Principal activities and business updates

Saturn Holdings Limited ('SHL' and the 'Company') is a holding company, whose principal activity is as a holding company of Tradex Insurance Company plc ('Tradex'), Soteria Finance Holdings Limited ('SFHL') and Soteria Insurance Limited ('SIL'), together forming the 'Group'. Both Tradex and SIL are general insurance companies, regulated by the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA').

Acquisition of subsidiaries

SHL was incorporated on 15 December 2021 but remained dormant until 7 July 2023, when, following approval by the PRA, it acquired Tradex Insurance Holdings Limited ('TIHL') and TIHL's subsidiary, Tradex. On 21 August 2023, ownership of Tradex was transferred from TIHL to SHL.

On 10 October 2023, following approval by the PRA, SHL acquired SFHL and its subsidiary, SIL, and SAOFS.

Following the year end, on 19 February 2024, ownership of SIL has transferred from SFHL to SHL and so SIL has become a directly owned subsidiary of SHL. TIHL was dissolved on 9 January 2024 and SAOFS was dissolved on 4 June 2024.

Since acquisition, Tradex has seen a significant increase of new business being written with a new MGA, Markerstudy Insurance Services Limited ('MISL'), in addition to the existing delegated authority arrangement with Clegg Gifford. A significant proportion of the new business relates to Motor personal lines and Home products, increasing the diversity of the Tradex underwriting portfolio. Tradex also took actions in the second half of 2023 to exit underperforming segments and continued actions on pricing and risk selection to improve rating adequacy, which are expected to deliver a profitable underwriting result in 2024. The emphasis going forward is on underwriting risk selection and quality through governance and development of pricing models, driving the rate required to reflect claims' inflation and achieve product targets, and continuously improving the portfolio mix.

As SIL's last insurance policies expired in March 2022, the principal activity is 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 SIL has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its parent company.

Financial position & performance

The financial position of the Group and the Company at 31 December 2023 is shown in the Statements of Financial Position on pages 15-17 with the trading results shown in the Income Statement on page 14. A summary of the trading result for the Group is shown below.

Highlights

	2023 **£m**	2022 £m (unaudited)
Earned premiums, net of reinsurance	**28.0**	-
Claims incurred, net of reinsurance	**(45.3)**	-
Other technical income, net of reinsurance	**0.2**	-
Net operating expenses	**(6.1)**	-
Balance on the technical account for general business	**(23.2)**	-
Investment income	**4.9**	-
Net unrealised gains on investments	**4.4**	-
Investment expenses and charges	**(3.6)**	-
Goodwill amortisation	**2.5**	-
Other income	**0.1**	-
Loss on ordinary activities before tax	**(14.9)**	-

The 2023 full year financial result was a loss before taxation of £14.9m.

Following the acquisition by SHL, a new management team has been appointed across the Group who have undertaken a detailed review of legacy claims reserves in Tradex to ensure that they adopt a philosophy consistent with that on the go-forward book and in line with the Group's risk appetite. This has led to a strengthening of reserves, contributing to the loss in the year. £10.0m of the increase in net reserves relates to the introduction of a management margin, in line with other Group companies. The management margin is added to the 'actuarial best estimate' reserves so that, in most years, no adverse run-off deviations are envisaged.

Impact of inflation and interest rate rises

The rate of inflation has fallen significantly during the year, with CPI reducing from 10.5% at the start of the year to 4.0% in December, however this remains above the Bank of England's target rate of 2%. As a result, the Bank of England steadily increased the base rate of interest over the first part of the year, from 3.5% at the start of the year to 5.25% by early August. As at year end the rate remains at 5.25%.

Claims

Increased inflation has led to an increase in claims costs for Tradex and SIL, as the cost of vehicle parts and building materials has increased. 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 2024, particularly if current widespread industrial action leads to further wage increases in the public sector.

Investments

Investment performance in 2023 has been driven by expectations that inflation will be lower than previously anticipated, and by markets pricing in earlier and higher rate cuts by the US, UK and European central banks.

Regulatory background

The regulatory focus on environmental, social and governance (ESG) and climate change continues to encourage companies to consider these matters for the business and wider society. The Group has incorporated Climate Change risk into its Risk Management Framework and has assigned an owner who is responsible for the management and reporting of climate change. The Group has considered its exposure to climate change risk and has concluded that the highest exposure is in its investment portfolio and within the home underwriting, therefore, in market risk and underwriting risk. However, this is not considered to be an undue level of risk, and it is incumbent on the Group's management, Board and investment partners to ensure that the longer term investment strategy 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. The Group has established a customer committee to oversee the customer related activities, including those which have been outsourced to MISL and ensure that the Consumer Duty requirements are being met. This is attended by appropriate representatives from MISL. The Group has appointed a member of the Board as Consumer Duty champion, with additional responsibilities being held by senior management. The Group has largely completed all of the actions in its implementation plan, with a standing Board agenda item to report on progress.

Capital

The Group monitors available capital on a Solvency II basis, with a Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2023 of 203%.

The Group has two subordinated loans, which are held within SHL. These were originally held by SFHL but were transferred to SHL on 10 October 2023. On the same date, the loans were novated by the previous lenders. The loans now comprise:

- a £12m subordinated perpetual loan charged at a fixed rate of 17.5% interest per annum. This subordinated loan is classified as Tier 1 Restricted capital within Solvency II Own Funds.
- a £60m subordinated term loan, due in 2030 at par, charged at a fixed rate of 16.875% interest per annum. This subordinated loan is classified as Tier 2 capital within Solvency II Own Funds.

The counterparties to each of the loans are Pollen Street PLC, PSC Credit III (A) AssetCo S.à r.l., PSC Credit III (B) AssetCo S.à r.l. and Northlight QIAIF PLC. Pollen Street PLC, PSC Credit III (A) AssetCo S.à r.l., PSC Credit III (B) AssetCo S.à r.l. are related parties to SHL, owing to the shareholding in SHL by PSC Nominee 4 Limited, which is part of the same group.

Key performance indicators

The business strategy for the Group 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 Group's strategic vision. In addition, a range of customer outcomes measures are considered although there is no single key indicator.

Indicator	2023	2022 (unaudited)
Financial *Financial measures focus on profitability and the value of the business*		
Loss before taxation This shows the level of (loss)/profit before tax	(14.9)	-
Net asset value This shows the value of total assets less total liabilities	58.1	-
Capital adequacy & risk *Risk measures focus on capital adequacy under Solvency II requirements*		
Capital buffer This shows the SCR coverage using the Solvency II Standard Formula approach, which is assessed quarterly.	203%	-

Principal risks and uncertainties

The following are considered to be the principal risks facing the Group:

Level 1 Risks	Definition
Conduct Risk	The risk that the Group's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.
Credit Risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations[1].
Insurance Risk	Insurance risk comprises the risk of loss resulting from adverse change in the value of insurance liabilities and can relate to both unearned exposure (premium risk) and earned exposure (reserve risk).
Liquidity Risk	The current and prospective risk to earnings or solvency arising from Group's inability to meet its obligations when they come due without incurring unacceptable losses.
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.
Strategic & 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
Regulatory Risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation SHL 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

[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 the Group is exposed to are insurance risk (both premium risk and 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 44.

Section 172(1) statement & stakeholder engagement

The Board of SHL considers that it has, in good faith, acted in a way that it considers would be most likely to promote the success of the Group 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 SHL is aware of its duties under the Companies Act, including the matters set out in s.172. It has 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.

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
Shareholders The Group Board maintains open and regular dialogue with its investor. The Board hold regular meetings, with Pollen Street having a director on the SHL Board. The SHL Board is attended by members of the Tradex and SIL management teams, which supports regular communication between Pollen Street and management.	Performance and risks	In all discussions the Board regularly considers if and how it is acting in the best interest of its investors, whilst ensuring that any actions: • do/will not breach any regulatory requirements applicable to the Group or the Board; • do/will not have any adverse effect on the security of the Group's policyholder benefits; and • comply with any legislation applicable to the Group. The SHL Board receives performance updates on Tradex and SIL, which includes the Tradex and SIL Management teams attending meetings of the SHL Board and Board Committees.
Customers Protecting our customers and improving their overall customer experience remains at the heart of what we do. The Group proactively monitors and manages customer complaints and has a customer focused culture to ensure fair outcomes for all.	Consumer Duty	Consumer Duty is a standing agenda item at Group Board Risk Committee meetings. The Group takes its responsibility to oversee MISL's plans in this area seriously and receives regular MI which demonstrates MISL's compliance with Consumer Duty.
Colleagues Management recognise the importance of engaging our colleagues, ensuring their views are considered when making decisions and supporting their wellbeing.	Colleague reward	The Board and Remuneration Committee have considered the impact of the changes in Group structure on colleagues across Tradex and SIL, being the two entities in the Group with employees, particularly relating to: • communication of the impact of the change in Group ownership; • key person risk and the need to attract and retain key skills; and • the increased opportunities and responsibilities for colleagues from the change in the corporate structure.

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

Key Stakeholders	Board Matter	Board Considerations
Regulator As Tradex and SIL are regulated entities, the Group has to comply with the requirements of the PRA and the FCA and to report to them on a regular basis.	Regulation and compliance	In addition to the standard regulatory reporting requirements, the Board engaged with the regulators on the following matters: • with the PRA regarding the acquisition of Tradex and SFHL by SHL. • with the PRA regarding the dividend extraction policy and payment of dividend from SIL, which was approved in November 2023.

Approved by the Board on 26 September 2024 and signed on its behalf by:

Sharon Ludlow

Director

Report of the Board of Directors

General information

SHL is a Limited Company registered in England & Wales under the Companies Act 2006 (registered number 13802733). SHL is a holding company. Two of its subsidiaries, Tradex (FRN 202917) and SIL (FRN 435022), are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Group is supervised by the PRA.

Post balance sheet events

TIHL was dissolved on 9 January 2024.

On 19 February 2024, ownership of SIL transferred from SFHL to SHL and so SIL has become a directly owned subsidiary of SHL.

On 28th March 2024, Saturn Holdings Limited subscribed for 15 new shares issued by Tradex Insurance Company Limited for £37,500,000. This equates to an increase in share capital in Tradex of £15 and an increase in share premium of £37,499,985 at the subscription date.

SAOFS was dissolved on 4 June 2024.

On 26 June 2024, Saturn Holdings Limited subscribed for 1 new share issued by Tradex Insurance Company Limited for £2,500,000. This equates to an increase in share capital of £1 and an increase in share premium of £2,499,999 at the subscription date.

On 28 June 2024, Tradex issued £50m tier 1 restricted (£20m) and tier 2 (£30m) debt which was wholly purchased by SHL.

Tradex was previously a private company limited by shares until it re-registered to a public company on 2 August 2024.

Results and dividends

The financial statements shown on pages 14 to 19 set out the financial position of the Group and the Company and the results of the Group for the year ended 31 December 2023. The Company has not proposed any dividends for the year (2022: £nil).

Political donations

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

Directors' details

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

Non-Executive Directors:

Michael England	
Sharon Ludlow	(appointed 6 July 2023)
John Hastings-Bass	(appointed 6 July 2023, resigned 16 August 2024)
Ewen Gilmour	(appointed 27 February 2024)
Neil Southworth	(appointed 16 August 2024)
Andrew Johnston	(appointed 1 September 2024)
Mark Summerfield	(appointed 17 September 2024)

Corporate responsibility and the environment

The Group considers the management of the investment portfolio to be a key factor in ensuring adequate governance surrounding corporate and environmental responsibilities.

The Investment Committees review asset categories and, where required, individual assets, to ensure that these are held in line with ethics appetites. The investment mandates for Tradex and SIL include ESG policies which look to maintain appropriate ESG standards.

Statement of going concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that the Group and Company have the resources to continue in business for at least the period from the date of approval of the financial statements up to 31 December 2025. In making this assessment, the Directors have performed a detailed analysis of future capital.

The going concern assessment performed takes into account the Group's projected coverage of regulatory capital requirements and its resilience to withstand foreseeable stress scenarios. They also take into account the option to cancel or defer, respectively, the interest payments on the Tier 1 and Tier 2 loan instruments in the event that SHL has insufficient solvency or liquidity.

In the central forecast case, solvency projections show the Solvency Capital Requirement (SCR) coverage is set to remain above 140% throughout the forecast period, which is above the Board's risk appetite.

The Directors have considered the potential impact of various stresses, based on those which are considered to be key risks for the Group. These include risks from the inherent uncertainty in predicting loss ratios and in reliance on reinsurers. In all cases, solvency coverage remains above 100%.

The Directors have also considered reverse stress tests, in order to identify the likelihood of severe stress scenarios which would reduce SCR coverage to below 100%. These are considered highly unlikely to occur and, in each case, could at least be partially mitigated by management actions.

Risk management and internal controls

The Boards have overall responsibility for the Group'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 Boards have 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. The Group's approach to Risk Management is set out in further detail on pages 39 to 45.

The Group'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 SHL Risk Committee and Audit Committee regularly review the effectiveness of the Group's internal control systems. Their monitoring covers all material controls. Principally they review and challenge, on an ongoing basis, reports from management, the internal audit function and external auditors. This enables them to consider how to manage or mitigate risk in line with the Group's risk strategy. The Risk Committee and Audit Committee did not identify or report any material failings to the Board in 2023.

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 the Group'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 the Group's auditors have been made aware of that information.

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 the Company's and Group'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 Report and Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the Group's 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 the Company or Group 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 Group and 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 and Group's transactions and disclose, with reasonable accuracy, at any time, the financial position of the Company and Group and enable them to ensure that its accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group 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 SHL's website.

Sharon Ludlow

By order of the Board

Sharon Ludlow

Director

11-12 Hanover Square

London

W1S 1JJ

26 September 2024

Opinion

We have audited the financial statements of Saturn Holdings Limited (‘the parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2023 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the parent company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated and parent Company Statement of Changes in Equity and the related notes 1 to 34, 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 Financial Reporting Standard (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 group’s and of the parent company’s affairs as at 31 December 2023 and of the group’s 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 group 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, 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.

Other matter

The comparative amounts for the year ended 31 December 2022 are unaudited.

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.

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 group and parent company’s ability to continue as a going concern for the period to 31 December 2025.

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 group’s ability to continue as a going concern.

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 group and the parent 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 parent company 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 10, 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 group's and the parent 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 group or the parent 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 entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company 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 the group 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 group and UK regulatory bodies; reviewed minutes of the Board and its committees; and gained an understanding of the group'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 group has established to address risks identified by the group, or that otherwise seek to prevent, deter or detect fraud. 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. We also performed journal entry testing, with a focus on journals indicating large or unusual transactions based on our understanding of the business.
- Based on this understanding we designed our audit procedures to identify noncompliance 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 group's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the PRA and FCA.

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.

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.

Signed by:

Ernst & Young LLP

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Vinood Ramabhai (Senior statutory auditor)

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

London

26 September 2024

Notes:

1. The maintenance and integrity of the Soteria Finance Holdings 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.

Consolidated Income Statement
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

	Notes	2023	2022 (unaudited)
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	5	**149.2**	-
Outward reinsurance premiums	5	**(76.2)**	-
Net written premiums		**73.0**	-
Change in the provision for unearned premiums			
- gross amount	5	**(82.0)**	-
- reinsurers' share	5	**37.0**	-
Earned premiums, net of reinsurance	5	**28.0**	-
Other technical income, net of reinsurance	6	**0.2**	-
Total technical income		**28.2**	-
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	7	**(40.8)**	-
- reinsurers' share	7	**18.3**	-
	7	**(22.5)**	-
Change in the provision for claims			
- gross amount	23	**(71.7)**	-
- reinsurers' share	23	**48.9**	-
		(45.3)	-
Claims incurred, net of reinsurance			
Net operating expenses	8	**(6.1)**	-
Total claims and expenses		**(51.4)**	-
Balance on the technical account for general business		**(23.2)**	-
Non-technical account			
Balance on the general business technical account		**(23.2)**	-
Investment income	9	**4.9**	-
Net unrealised gains on investments	9	**4.4**	-
Investment expenses and charges	10	**(3.6)**	-
Goodwill amortisation	12	**2.5**	
Other income	6	**0.1**	
Loss on ordinary activities before tax		**(14.9)**	-
Tax on profit on ordinary activities	11	**-**	-
Loss for the financial year		**(14.9)**	-

Consolidated Statement of Comprehensive Income/(Expense)
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

	Notes	2023	2022 (unaudited)
Loss and total comprehensive expense for the financial year		**(14.9)**	-

Consolidated Statement of Financial Position
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

	Notes	2023	2022 (Unaudited)
Assets			
Goodwill			
Goodwill	12	**4.1**	-
Negative goodwill	12	**(59.2)**	-
Net goodwill		**(55.1)**	-
Investments			
Financial investments	15	**262.8**	-
Deposits with credit institutions		**45.8**	-
		308.6	-
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	**68.3**	-
Claims outstanding	23	**215.2**	-
		283.5	-
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		**0.1**	-
- intermediaries		**144.9**	-
Debtors arising out of reinsurance operations		**10.7**	-
Corporation tax debtor	24	**0.6**	-
Other debtors	16	**0.9**	-
		157.2	-
Other assets			
Tangible assets	13	**1.4**	-
Cash and cash equivalents	17	**127.0**	-
		128.4	-
Prepayments and accrued income			
Accrued interest		**2.8**	-
Deferred acquisition costs		**17.2**	-
Other prepayments and accrued income		**2.5**	-
		22.5	-
Total assets		**845.1**	-

Consolidated Statement of Financial Position
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

	Notes	**2023**	2022 (unaudited)
Liabilities			
Capital and reserves			
Share capital	18	**0.7**	-
Share premium	19	**72.3**	-
Retained earnings	20	**(14.9)**	-
Total capital and reserves		**58.1**	-
Technical provisions			
Provision for unearned premiums	22	**128.9**	-
Claims outstanding	23	**481.9**	-
		610.8	-
Provisions for other risks			
Provision for taxation	24	**-**	-
			-
Creditors			
Creditors arising out of direct insurance operations		**23.0**	-
Creditors arising out of reinsurance operations		**56.1**	-
Debenture loans	21	**70.1**	-
Other creditors including taxation and social security	25	**17.5**	-
		166.7	-
Accruals and deferred income		**9.5**	-
Total liabilities		**787.0**	-
Total equity and liabilities		**845.1**	-

Approved by the Board of Directors on 26 September 2024 and signed on its behalf by:

Sharon Ludlow, Director

Mark Summerfield, Director

Company Statement of Financial Position
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

	Notes	**2023**	2022 (unaudited)
Assets			
Investments			
Investment in group undertakings	14	**86.2**	-
			-
Debtors			
Corporation tax debtor	24	**-**	-
Other debtors	16	**102.1**	-
		102.1	-
Other assets			
Cash and cash equivalents	17	**-**	-
Total assets		**188.3**	-
Liabilities			
Capital and reserves			
Share capital	18	**0.7**	-
Share premium	19	**72.3**	-
Retained earnings	20	**41.2**	-
Total capital and reserves		**114.2**	-
Creditors			
Debenture loans	21	**70.1**	-
Intercompany loans	21	**3.1**	
Other creditors including taxation and social security	25	**0.1**	
		73.3	
Accruals and deferred income		**0.8**	-
Total liabilities		**74.1**	-
Total equity and liabilities		**188.3**	-

Approved by the Board of Directors on 26 September 2024 and signed on its behalf by:

Sharon Ludlow, Director

Mark Summerfield, Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

Group	Notes	2023	2022 (unaudited)
Cash flows from operating activities			
Loss before tax		**(14.9)**	-
Adjustment for:			
Investment income		**(3.5)**	-
Gains less losses arising from financial instruments		**(4.3)**	-
Increase in reinsurers' share of technical provisions		**(79.1)**	-
Increase in debtors, prepayments and accrued income		**(137.7)**	-
Increase in insurance contract liabilities		**153.5**	-
Increase in reinsurance liabilities		**51.6**	-
Investment interest received		**4.0**	-
Increase in creditors, accruals and deferred income		**42.2**	-
Purchase of tangible assets		**(0.1)**	-
Amortisation of goodwill		**(2.5)**	-
Net cash flows from operating activities		**9.2**	-
Cash flows from investing activities			
Cost of acquisition of subsidiary undertakings		**(29.5)**	-
Cash acquired with subsidiary undertakings		**125.2**	-
Net cash flows from investing activities		**95.7**	-
Cash flows from financing activities			
Issuance of share capital and share premium		**73.0**	-
Issuance of subordinated notes		**(5.1)**	-
Net cash flows from financing activities		**67.9**	-
Net (decrease)/increase in cash and cash equivalents		**172.8**	-
Cash and cash equivalents at the start of the financial year		**-**	-
Cash and cash equivalents at the end of the financial year		**172.8**	-
Comprising:			
Cash	17	**104.5**	-
Money market funds	17	**22.5**	-
Deposits with credit institutions		**45.8**	-
		172.8	-

Cash flows from operating activities

The Group classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows. This is because purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of claims incurred for insurance contracts, which are classified under operating activities.

Consolidated and Company Statement of Changes in Equity
For the year ended 31 December 2023
All amounts are stated in £m unless otherwise indicated

Group	**Share capital**	**Share premium**	**Retained earnings**	**Total**
2023				
Balance at the beginning of the financial year	**-**	**-**	**-**	**-**
Loss for the financial year			**(14.9)**	**(14.9)**
Issuance of shares	**0.7**	**72.3**	**-**	**73.0**
Balance at the end of the financial year	**0.7**	**72.3**	**(14.9)**	**58.1**
2022 (unaudited)				
Balance at the beginning of the financial year	-	-	-	-
Profit for the financial year	-	-	-	-
Balance at the end of the financial year	-	-	-	-

Company	**Share capital**	**Share premium**	**Retained earnings**	**Total**
2023				
Balance at the beginning of the financial year	**-**	**-**	**-**	**-**
Profit for the financial year	**-**	**-**	**41.2**	**41.2**
Issuance of shares	**0.7**	**72.3**	**-**	**73.0**
Balance at the end of the financial year	**0.7**	**72.3**	**41.2**	**114.2**
2022 (unaudited)				
Balance at the beginning of the financial year	-	-	-	-
Profit for the financial year	-	-	-	-
Balance at the end of the financial year	-	-	-	-

1. General information

Saturn Holdings Limited ('SHL' or the 'Company'), a Limited Company registered in England under the Companies Act 2006, together with its subsidiaries, Tradex Insurance Company plc ('Tradex'), Soteria Finance Holdings Limited ('SFHL') and Soteria Insurance Limited ('SIL') are collectively referred to as the 'Group'. SHL's registered office is 11-12 Hanover Square, London, W1S 1JJ. The Group underwrites insurance, predominantly in personal lines (Motor and Home) via Tradex and SIL.

2. Basis of preparation and statement of compliance

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards ('UK GAAP'), 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, the Group continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

In accordance with the Companies Act 2006 the Company is exempt from the requirement to publish its individual profit and loss account and the related notes on the condition that the Company's individual balance sheet shows the Company's loss for the financial year.

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 8, 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 2023. This is because the financial investments are reported at fair value under UK GAAP and 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.

Basis of consolidation

The Group financial statements comprise a consolidation of SHL, TIHL, Tradex, SFHL, SIL and SAOFS from their acquisition dates, per the requirements of FRS 102, whereas the Company financial statements comprise solely of SHL. FRS 102 requires a parent company to consolidate entities it controls. A parent controls an entity when it has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Going concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that the Group and Company have the resources to continue in business for at least the period from the date of approval of the financial statements up to 31 December 2025. In making this assessment, the Directors have performed a detailed analysis of future capital.

The going concern assessment performed takes into account the Group's projected coverage of regulatory capital requirements and its resilience to withstand foreseeable stress scenarios. They also take into account the option to cancel or defer, respectively, the interest payments on the Tier 1 and Tier 2 loan instruments in the event that SHL has insufficient solvency or liquidity.

In the central forecast case, solvency projections show the Solvency Capital Requirement (SCR) coverage is set to remain above 140% throughout the forecast period, which is above the Board's risk appetite.

The Directors have considered the potential impact of various stresses, based on those which are considered to be key risks for the Group. These include risks from the inherent uncertainty in predicting loss ratios and in reliance on reinsurers. In all cases, solvency coverage remains above 100%.

The Directors have also considered reverse stress tests, in order to identify the likelihood of severe stress scenarios which would reduce SCR coverage to below 100%. These are considered highly unlikely to occur and, in each case, could at least be partially mitigated by management actions.

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

Foreign currencies

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

The Group holds some investments denominated in Euros, US Dollars and Polish Zloty which are translated to the Group'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) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Under this method the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities (including contingent liabilities) at the acquisition date.

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired and is measured on initial recognition at cost.

Following initial recognition, goodwill is stated at cost less amortisation and accumulated impairment losses. The goodwill asset is to be amortised to offset recognition of the deferred tax asset which was unrecognised at the point of purchase of Tradex. Goodwill assets are tested for impairment annually or when there is evidence of possible impairment. Goodwill is impaired when the recoverable amount is less than the carrying value. The goodwill asset is to be amortised as the Group benefits from the utilisation of unrecognised tax losses, which is expected to occur over the next 12 months.

A gain on bargain purchase, or negative goodwill, arising on an acquisition is accounted for as a negative asset and recognised in the income statement in the periods expected to be benefited. Negative goodwill is to be recognised in the income statement to offset any reserves strengthening, by book of business, relating to the reserves at the point of acquisition, over a maximum period of five years.

b) Investments in subsidiaries

Subsidiaries are entities that the Company controls, by being exposed to, or having rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated with the parent company in the Group financial statements and carried as an asset in the Company financial statements.

Investment in subsidiaries in the Company financial statements are held at cost less accumulated impairment losses, and are considered for impairment at each reporting date.

c) Revenue recognition

Revenue principally comprises:

i) Premium income from insurance contracts

The Group's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy note d) 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, the Group 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.

3. Significant accounting policies (continued)

c) Revenue recognition (continued)

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 Group satisfies the related performance obligation in accordance with FRS 102. In the case of services such as policy administration fees, the Group's performance obligations are met when the third party makes adjustments in its administration of the policy. At this point, the Group's commission income is recognised in full at the contracted rate. The resulting receivable to the Group 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 the Group is liable.

Commission receivable on third party product sales is recognised upon the sale as all Group obligations are met immediately. The resulting receivable to the Group is settled by the third party to contract terms of 30 days following the month end the transaction was completed. The Group receivable is fixed per policy per contract terms with the third party. The Group 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.

d) Insurance contracts

i) Classification of insurance contracts

Contracts under which the Group 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 the Group are classified as insurance contracts. General insurance business is accounted for on an annual basis.

ii) Recognition of premium income

Gross written premiums comprise premiums receivable on those contracts which incepted 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 incepted 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.

3. Significant accounting policies (continued)

d) Insurance contracts (continued)

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.

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.

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).

e) Financial instruments

The Group 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 the Group 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
- the Group 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.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

iii) Basic financial instruments

Debt securities

The Group 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 the Group 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 c (page 21) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to accounting policy note e, section vii, below.

Equities

The Group's collective investments include investments in equities tracker funds and it also invests in a small number of directly held equities. These are initially measured at fair value, being purchase price on the date on which the Group 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.

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.

Borrowed funds

Financial liabilities primarily represent borrowed funds. Borrowings are initially recognised at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are primarily subordinated bond issues.

Deposits with credit institutions

Deposits with credit institutions are initially measured at their transaction price, including any transaction costs and are subsequently measured at amortised cost.

iv) Other financial instruments

The Group's real-estate, real-estate backed lending and some of the collective investment undertakings cannot be valued at prices derived from inputs that are observable for the asset, as disclosed in note 33. Where this is the case, these are valued initially at fair value, being purchase price on the date on which the Group 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

3. Significant accounting policies (continued)

e) Financial instruments (continued)

iv) Other financial instruments (continued)

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) Options

Alongside the investment in equities tracker funds, call and put options are held in order to mitigate some of the risk and therefore reduce the Solvency II risk charges associated with these. 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.

vii) Impairment of financial assets

Assessment

At the statement of financial position date, the Group 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.

viii) 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.

f) Impairment of non-financial assets

The carrying value of the Group's and Company's non-financial assets, excluding deferred tax assets, is reviewed at the date of the statement of financial position to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use as assessed by reference to discounted future cash flows) is estimated.

An impairment loss is recognised in the income statement to the extent that the carrying value of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been an increase in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Significant accounting policies (continued)

g) 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 the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

h) 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.

i) 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, the Group and Company determine taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in the Group and Company's corporation tax filing. If it is not probable that a particular tax treatment is accepted, the Group and Company use 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.

j) Tangible assets and depreciation

Tangible assets are stated at cost less depreciation. Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life on a straight-line basis. The expected useful lives of the principal categories of assets are:

Computer equipment and software	3 to 5 years
Leasehold improvements	6 years

k) 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 the Group are considered operating leases and no liability is recognised in the statement of financial position.

l) 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.

3. Significant accounting policies (continued)

m) Dividends to shareholders

Dividends are only recognised in the annual report and accounts by the Group and Company 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

The Group 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 or underwriting quarter, which is not yet fully developed, to produce an estimated ultimate claims cost for each accident or underwriting 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 £123.8m and historic liability claims from the electric industry discounted reserve amounts to £1.7m. The net impact of the unwinding of the discounting in the year was £0.3m. Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 41 to 42

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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 2023 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 Tradex and SIL Boards regularly commission an independent third party review, typically undertaken every two years, to ensure the reserves are reasonable.

The overall objective of the Group'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 Chief 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 adopted approach whereby reserves will include a management margin above the actuarial best estimate. The amount of margin held at any given time is determined by the Group's Chief Financial Officer taking into account current causes of uncertainty in the reserve.

Quarterly reports are produced by the actuarial team and presented to the Group'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)

General insurance contracts – assumptions, changes in assumptions and sensitivity (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;
- 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 and the current discount rate (-0.25% in England and Wales);
  - 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; and
  - iv. 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 2023 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 sensitivity of a one percentage point increase in the rate of inflation for one year would increase the costs of outstanding claims by £2.9m, 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

An analysis of movements in claims and claims handling costs in respect of prior years for both Tradex and SIL can be found in the individual Annual Report and Accounts of each of the companies.

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.

All amounts are stated in £m unless otherwise indicated

5. Net earned premiums

	2023	2022 (unaudited)
Gross premiums		
Gross written premiums	**149.2**	-
Change in unearned premium provision	**(82.0)**	-
Gross earned premiums	**67.2**	-
Outward reinsurance premiums		
Premiums ceded	**(76.2)**	-
Change in unearned premium provision	**37.0**	-
Premiums ceded to reinsurers	**(39.2)**	-
Net earned premiums	**28.0**	-

6. Other income

	2023	2022 (unaudited)
Other technical income, net of reinsurance		
Reinsurance commission earned	**0.2**	-
Other non-technical income	**0.1**	-
Total other income	**0.3**	-

Reinsurance commission earned relates to profit commission due to reinsurers under reinsurance arrangements.

7. Net claims paid

	Note	2023	2022 (unaudited)
Gross claims paid			
Current year claims		**9.6**	-
Prior year claims		**31.6**	-
Gross claims paid	**23**	**41.2**	-
Less salvage and subrogation			
Current year claims		**-**	-
Prior year claims		**(0.4)**	-
Salvage and subrogation received		**(0.4)**	-
Claims paid		**40.8**	-
Less amounts receivable from reinsurers			
Current year claims		**(3.5)**	-
Prior year claims		**(14.8)**	-
Amounts receivable from reinsurers	**23**	**(18.3)**	-
Net claims paid		**22.5**	-

8. Net operating expenses

	2023	2022 (unaudited)
Acquisition costs	**(22.5)**	-
Change in deferred acquisition costs	**17.2**	
Reinsurance commissions	**11.1**	-
Reinsurance share of change in deferred acquisition costs	**(5.3)**	-
Administration expenses	**5.6**	-
Operating expenses	**6.1**	-

The Group 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 32. Staff costs included within administrative expenses are shown below. Included within the administration expenses is £0.1m paid by the Group in respect of regular pension contributions.

Details of the directors' remuneration paid by the Group can be found in note 32. No remuneration is paid in respect of SHL, as the services provided are not deemed to be a significant portion of the overall time spent on the Group.

Staff costs

	2023 £'000	2022 £'000 (unaudited)
Wages and salaries	**1,413**	-
Social security costs	**284**	-
Pension costs - defined contribution scheme	**133**	-
	1,830	-

Average number of employees

	2023	2022 (unaudited)
Administration	**20**	-
Management	**12**	-
	32	-

Amounts payable to auditors

	2023 £'000	2022 £'000 (unaudited)
Audit of these financial statements	**270**	-
Audit of subsidiary financial statements	**956**	-
	1,226	-

All audit costs for subsidiaries acquired during the year relate to the fee for the full year.

The above amounts are exclusive of VAT.

All amounts are stated in £m unless otherwise indicated

9. Investment return

	2023	2022 (unaudited)
Interest and similar income:		
Deposits with credit institutions	**2.2**	-
Listed debt securities	**2.2**	-
Collective investments	**0.6**	-
	5.0	-
Realised (losses)/gains on investments:		
Listed debt securities	**(0.1)**	-
Total investment return	**4.9**	-

	2023	2022 (unaudited)
Unrealised gains/(losses) on investments:		
Listed debt securities	**3.1**	-
Real-estate backed lending	**0.6**	-
Collective investments	**0.4**	-
Foreign exchange hedges	**0.3**	-
	4.4	-

Included in the returns for listed debt securities and real-estate backed lending are a realised loss of £0.3m and an unrealised gain of £0.6m relating to foreign exchange movements on investments denominated in currencies other than GBP.

10. Investment expenses and charges

	2023	2022 (unaudited)
Investment expenses and charges:		
Interest incurred on subordinated debt	**2.7**	-
Investment management expenses	**0.9**	-
	3.6	-

11. Income tax

	2023	2022 (unaudited)
Current tax		
Total current tax charge	**-**	-
Deferred tax		
Total deferred tax charge	**-**	-
Total tax charge recognised in the income statement	**-**	-

Further information about deferred tax is presented in note 24.

All amounts are stated in £m unless otherwise indicated

11. Income tax (continued)

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:

	2023	2022 (unaudited)
Loss before taxation	**(14.9)**	-
Tax calculated at domestic corporation tax rate of 23.5% (2022: 19%)	**3.5**	-
Effect of:		
Expenses not deductible for tax purposes	**(0.8)**	-
Income not taxable	**0.6**	-
Deferred tax not provided	**(3.3)**	-
Income tax charge	**-**	-

12. Goodwill

Group	**Goodwill on purchase of Tradex**	**Negative goodwill on purchase of Soteria**	**Total**
Net book value carried forward	**-**	**-**	**-**
New in the year	**4.1**	**(61.7)**	**(57.6)**
Amortised during the year	**-**	**2.5**	**2.5**
Closing net book value	**4.1**	**(59.2)**	**(55.1)**

There was no goodwill held during the prior year.

13. Tangible Assets

Group	**Computer Equipment and Software**	
	2023	2022 (unaudited)
Cost		
At the start of the year	**-**	-
Acquired during the year	**7.5**	-
Additions	**0.1**	-
Disposals	**-**	-
At the end of the year	**7.6**	-
Depreciation		
At the start of the year	**-**	-
Acquired during the year	**(6.2)**	-
Charge for the year	**-**	-
Disposals	**-**	-
At the end of the year	**(6.2)**	-
Net Book Value		
At the end of the year	**1.4**	-
At the start of the year	**-**	-

All amounts are stated in £m unless otherwise indicated

14. Investment in group undertakings

Company	2023	2022 (unaudited)
Investment in Tradex	**69.7**	-
Investment in SFHL	**16.5**	-
At the end of the period	**86.2**	-

15. Financial investments

Group	2023	2022 (unaudited)
Corporate bonds	**113.9**	-
Gilts	**44.6**	-
Other government bonds	**45.0**	-
Equities	**3.8**	-
Real-estate backed lending	**27.4**	-
Collective investment assets	**27.6**	-
Derivatives	**0.5**	-
	262.8	-

At 31 December 2023, corporate bonds, gilts, other government bonds and equities of £119.2m are expected to be recovered more than 12 months after the reporting date. All other amounts are expected to be recovered within one year. There are no secured deposits included in the above figures.

£13.9m 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.

Derivatives consist of foreign exchange hedges and options.

16. Other debtors

Group	2023	2022 (unaudited)
Accounts receivable:		
Other	**0.7**	-
From shareholders	**0.1**	-
Insurance premium tax debtor	**0.1**	-
	0.9	-

Company	2023	2022 (unaudited)
Amounts due from group undertakings	**102.1**	-

All amounts are stated in £m unless otherwise indicated

17. Cash and cash equivalents

Group	2023	2022 (unaudited)
Cash at bank	**104.5**	-
Money market funds	**22.5**	-
Net cash and cash equivalents	**127.0**	-

This balance is included as cash and cash equivalents for the purpose of the statement of cash flows. The balance represents the net position across the Group's various bank accounts.

A balance of £1 was held in cash by the Company at the current and prior year end.

Included in cash and cash equivalents is £18.7m held in the Group's custodian account for investment purposes. A further £22.5m is held in money market funds for investment purposes.

18. Share capital

Group and Company	2023 £	2022 £ (unaudited)
Authorised	**730,000**	1
Issued and fully paid		
At the start of the year	**1**	1
Issued on 7 July 2023	**719,999**	-
Issued on 10 October 2023	**10,000**	-
At the end of the year	**730,000**	1

SHL originally issued 1 share of £1 on incorporation. On 6 July 2023, this was subdivided into 100 shares of £0.01. On 7 July 2023, a further 71,999,900 shares were issued and settled in cash, resulting in 72,000,000 shares with share capital of £720k and share premium of £71,280k. On 10 October 2023, a further 1,000,000 shares were issued and settled in cash, resulting in share capital of £730k and share premium of £72,270k.

19. Share premium

Group and Company	2023 £	2022 £ (unaudited)
At the start of the year	**-**	-
Issued on 7 July 2023 (refer to note 18)	**71,280,000**	**-**
Issued on 10 October 2023 (refer to note 18)	**990,000**	**-**
At the end of the year	**72,270,000**	-

All amounts are stated in £m unless otherwise indicated

20. Retained earnings and other reserves

Group **Retained earnings**	**2023**	2022 (unaudited)
At the beginning of the financial year	**-**	-
Loss for the financial year	**(14.9)**	-
At the end of the financial year	**(14.9)**	-

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

Company **Retained earnings**	**2023**	2022 (unaudited)
At the beginning of the financial year	**-**	-
Profit for the financial year	**41.2**	-
At the end of the financial year	**41.2**	-

21. Borrowings

	Group and Company **£12m loan at 17.5%**	**Group and Company** **£60m loan at 16.9%**	**Company only** **£3.1m loan at 7%**
At the start and end of the prior year	**-**	**-**	**-**
At the start of the year	**-**	**-**	**-**
Acquired in the year	**11.6**	**58.5**	**3.1**
At the end of the financial year	**11.6**	**58.5**	**3.1**

On 10 October 2023, SHL acquired a £12m subordinated perpetual loan charged at 17.5% interest per annum and a £60m subordinated term year loan charged at 16.9% interest per annum. These loans were originally issued by SFHL on 2 December 2020, then transferred from SFHL to SHL on 10 October 2023.

Finance costs incurred during the financial year include £3.1m in relation to interest on the subordinated loans. SHL incurred stamp duty of £0.2m upon acquisition of the subordinated loans in the period, these costs have been capitalised.

In addition, the Company acquired a £3.1m perpetual loan from Tradex on 7 July 2023, charged at 7% per annum and repayable on demand.

Finance costs incurred during the financial year include £0.1m in relation to interest on the perpetual loan.

There were no defaults or breaches of contractual obligations attaching to the loans during the financial year.

22. Provision for unearned premiums

Group	**Gross 2023**	**Reinsurance 2023**	**Net 2023**	Gross 2022 (unaudited)	Reinsurance 2022 (unaudited)	Net 2022 (unaudited)
At acquisition	**46.9**	**(31.3)**	**15.6**	-	-	-
Increase in the financial year	**149.2**	**(76.2)**	**73.0**	-	-	-
Release in the financial year	**(67.2)**	**39.2**	**(28.0)**	-	-	-
Movement in the financial year	**82.0**	**(37.0)**	**(45.0)**	-	-	-
At the end of the financial year	**128.9**	**(68.3)**	**60.6**	-	-	-

All amounts are stated in £m unless otherwise indicated

23. Claims outstanding

Group

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

	Gross	**Unexpired risk provision**	**Salvage & Subrogation**	**Net**
2023				
At the beginning of the financial year	**-**	**-**	**-**	**-**
Acquired in the year	**410.4**	**-**	**(4.4)**	**406.0**
Movement in the financial year	**71.5**	**-**	**0.2**	**71.7**
At the end of the financial year	**481.9**	**-**	**(4.2)**	**477.7**

The Group had no outstanding claims in 2022.

Claims and claims handling costs

	Gross 2023	**Reinsurance 2023**	**Net 2023**	Gross 2022 (unaudited)	Reinsurance 2022 (unaudited)	Net 2022 (unaudited)
At the start of the financial year	**-**	**-**	**-**	-	-	-
Acquired in the year:						
Claims reported	**316.8**	**(155.0)**	**161.8**	-	-	-
Claims incurred but not reported	**90.8**	**(31.9)**	**58.9**	-	-	-
Claims settlement expenses	**2.8**	**-**	**2.8**	-	-	-
	410.4	**(186.9)**	**223.5**			
				-	-	-
Quota Share	**-**	**13.9**	**13.9**	-	-	-
Acquired in the year	**410.4**	**(173.0)**	**237.4**	-	-	-
Claims paid since acquisition	**(41.2)**	**18.3**	**(22.9)**	-	-	-
Increase/(decrease) in liabilities	**112.7**	**(67.2)**	**45.5**			
	71.5	**(48.9)**	**22.6**			
Reinsurance commutations	**-**	**7.4**	**7.4**			
Quota Share	**-**	**(0.7)**	**(0.7)**	-	-	-
Total movement	**71.5**	**(42.2)**	**29.3**	-	-	-
At the end of the financial year:						
Claims reported	**337.1**	**(170.9)**	**166.2**	-	-	-
Claims incurred but not reported	**142.0**	**(57.5)**	**84.5**	-	-	-
Claims settlement expenses	**2.8**	**-**	**2.8**	-	-	-
	481.9	**(228.4)**	**253.5**			
				-	-	-
Quota Share	**-**	**13.2**	**13.2**	-	-	-
At the end of the financial year	**481.9**	**(215.2)**	**266.7**	-	-	-

The balance in the quota share funds withheld account is £18.3m. The figures for quota share in the table above represent the quota share funds withheld net of the expected future profit commission of £5.1m.

Included within the movement in claims liabilities is £0.6m gross, £0.3m net, being the unwind of discounting relating to Periodic Payment Order (PPO) claims.

All amounts are stated in £m unless otherwise indicated

23. Claims outstanding (continued)

Analysis of claims development

	Underwriting year										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Total**
Gross of reinsurance											
At end of the underwriting year:	-	-	-	-	-	-	-	-	-	71.2	**71.2**
One year later	-	-	-	-	-	-	-	-	57.0		**57.0**
Two years later	-	-	-	-	-	-	-	53.6			**53.6**
Three years later	-	-	-	-	-	-	287.5				**287.5**
Four years later	-	-	-	-	-	435.2					**435.2**
Five years later	-	-	-	-	474.1						**474.1**
Six years later	-	-	-	473.8							**473.8**
Seven years later	-	-	469.1								**469.1**
Eight years later	-	375.1									**375.1**
Nine years later	306.6										**306.6**
Estimate for cumulative claims	306.6	375.1	469.1	473.8	474.1	435.2	287.5	53.6	57.0	71.2	**3,003.2**
Cumulative payments to date	(304.6)	(373.4)	(417.6)	(444.0)	(429.3)	(373.9)	(226.5)	(30.5)	(22.3)	(10.4)	**(2,632.5)**
Gross outstanding claims liabilities	2.0	1.7	51.5	29.8	44.8	61.3	61.0	23.1	34.7	60.8	**370.7**
Provision for prior years											**109.1**
Gross outstanding claims liabilities											**479.8**
Gross claims reported											**337.7**
Gross claims incurred but not reported											**142.1**
Gross outstanding claims liabilities											**479.8**

Included in the analysis above is £123.8m of discounted reserves relating to PPOs. PPO reserves in SIL are discounted at 4.5% and in Tradex reserves are discounted at 3.0%, reflecting the expected yield on the investments held to back the PPO claims, adjusted for credit risk. Undiscounted reserves relating to PPOs are £143.9m. The above analysis excludes claim handling of £2.1m expenses relating to SIL.

	Underwriting year										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Total**
Net of reinsurance											
At end of the underwriting year:	-	-	-	-	-	-	-	-	-	27.8	**27.8**
One year later	-	-	-	-	-	-	-	-	21.0		**21.0**
Two years later	-	-	-	-	-	-	-	26.9			**26.9**
Three years later	-	-	-	-	-	-	226.9				**226.9**
Four years later	-	-	-	-	-	297.5					**297.5**
Five years later	-	-	-	-	345.9						**345.9**
Six years later	-	-	-	339.4							**339.4**
Seven years later	-	-	320.8								**320.8**
Eight years later	-	304.9									**304.9**
Nine years later	240.9										**240.9**
Estimate for cumulative claims	240.9	304.9	320.8	339.4	345.9	297.5	226.9	26.9	21.0	27.8	**2,152.0**
Cumulative payments to date	(240.4)	(306.6)	(308.5)	(325.4)	(316.1)	(264.4)	(179.9)	(15.5)	(6.9)	(3.9)	**(1,967.6)**
Net outstanding claims liabilities	0.5	(1.7)	12.3	14.0	29.8	33.1	47.0	11.4	14.1	23.9	**184.4**
Provision for prior years											**66.8**
Net outstanding claims liabilities											**251.2**
Net claims reported											**166.9**
Net claims incurred but not reported											**84.3**
Net outstanding claims liabilities											**251.2**

Included in the analysis above is £34.9m 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 above figures exclude claim handling expenses of £2.1m relating to SIL and quota share funds withheld.

All amounts are stated in £m unless otherwise indicated

24. Taxation

Group	2023	2022
Current tax		(unaudited)
Assets acquired during the year:		
- Asset relating to section 455 repayable	**0.5**	-
- Tax on structured settlements	**0.1**	-
Asset at the end of the financial year	**0.6**	-

	2023	2022 (unaudited)
Deferred tax liability		
At the beginning of the financial year	**-**	-
At the end of the financial year	**-**	-
Analysis of deferred tax liability		
Capital allowances on fixed assets	**0.2**	-
Short-term timing differences	**(3.6)**	-
Tax losses	**3.4**	-
Liability at the end of the financial year	**-**	-

On 1 April 2023, in line with the UK Government announcement on 3 March 2021, the main UK corporation tax rate increased from 19% to 25%.

Deferred tax assets of £25.6m, relating to losses of £102.3m, £0.4m relating to timing differences of £1.4m on de-recognition of DAC on consolidation and £0.2m relating to timing differences of £0.7m between depreciation and capital allowances on fixed assets have not been recognised. Although the Directors believe that these deferred tax assets will be partially recovered within the forecast period, they recognise that the business is undergoing a large period of change and growth, and so have taken a prudent approach of not recognising any asset at this point in time. A further deferred tax asset of £0.4m, relating to timing differences of £1.6m between depreciation and capital allowances on fixed assets has also not been recognised on the basis that this will unwind outside of the forecast period.

Company

The Company had neither current tax nor deferred tax balances at the beginning or the end of the financial year.

25. Other creditors including taxation and social security

Group	2023	2022 (unaudited)
Insurance premium tax payable	**13.9**	-
Levies payable	**3.2**	-
Other creditors	**0.4**	-
	17.5	-

Company	2023	2022 (unaudited)
Amounts due to group undertakings	**0.1**	-

All amounts are stated in £m unless otherwise indicated

26. Operating leases

The minimum lease payments to which the Group was committed under non-cancellable operating leases for the coming year at the year-end were as follows:

Group	2023	2022 (unaudited)
On lease expiring:		
Within one year	-	-
Later than one year and not later than five years	0.2	-
After five years	-	-
	0.2	-

Amounts paid under operating leases during the year were £0.1m (2022: £0k).

27. Contingent assets and liabilities

The Group does not have any contingent assets or liabilities.

As a financial services provider, the Group 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 the Group 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.

28. Contingent contract obligations

The Group and Company have a contingent contract obligation relating to the purchase of SFHL and SIL. In line with the requirements of FRS 102, this has not been recognised in the balance sheet as the possibility of settlement of the contingent liability is considered to be remote.

29. Risk management and capital management

i) Risk management

The Group is exposed to insurance risk, via the insurance contracts it has entered into, and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way the Group 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 the Group.

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

Risk assessment of SHL

The principal risks of the Group are risks associated with the business of the Group’s trading subsidiaries, Tradex and SIL. The Group 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 5.

The Group 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 the Group’s risk policies.

Responsibilities Map

SHL maintains a Responsibilities Map which sets out the accountabilities delegated by the CEO to each member of the Management and 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 and capital management (continued)

Risk management structure

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

The Group has developed and implemented a governance and organisation structure, which supports the SHL Board with its responsibilities. The SHL, Tradex and SIL Boards have established separate risk and audit committees to:

- Oversee and advise the Boards of SHL, Tradex and SIL on current and potential risks and the overall risk framework.
- Ensure that risk appetite is appropriate and adhered to and that key risks are identified and managed.
- Review the effectiveness of internal controls and risk management systems.

To assist the SHL Board in carrying out its functions and to ensure that there are internal controls and risk management, the SHL, Tradex and SIL Boards have delegated certain responsibilities to a set of Board committees and, in the case of Tradex and SIL, to 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 Tradex and SIL Board Risk Committee (BRC).

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

Risk taxonomy

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 financial and non-financial risks to which the Group is exposed.

The most material risks that the Group is exposed to are premium risk, reserve risk, operational risk (third party) and market risk. SHL has in place a robust Governance structure and Risk Management Framework which includes a process for setting and reporting against risk appetite, which is consistent across each entity. The respective company Boards are responsible for monitoring the effectiveness of this framework and reporting in order to ensure that all risk mitigation activity in place is operating effectively.

Tradex has seen significant change in the measurement methods used over the year, with the introduction of a new business model, a new risk framework and new risk appetite metrics. For SIL, there has been no change.

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 will be 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 & Business risk is 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. The Group’s financial objective in managing these risks is to maintain capital adequacy.

The Group’s Risk Vision is set by the SHL Board and supported by a capital coverage risk appetite requirement at Group level. This is measured, monitored and reported regularly to the Executive, Risk Committee and Board.

Conduct risk

Conduct risk is the risk that the Group's processes, behaviours, offerings or interactions will result in unfair outcomes for customers, in particular vulnerable customers.

The Group’s objective is to offer a fair customer outcome and to meet all regulatory requirements.

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. Although all customer contact has been outsourced to MISL, the Group retains ownership of this risk, and ensures it receives the appropriate MI to enable the Group to perform the required oversight.

Regulatory risk

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation the Group 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.

The Group’s objective is to be compliant with all relevant regulatory requirements.

Regulatory risks are regularly monitored and reported to the Group Executive, Risk Committee and Board.

29. Risk management and capital management (continued)

Insurance risk

Insurance risk comprises the risk of loss resulting from adverse change in the value of insurance liabilities and can relate to both unearned exposure (Premium risks) and earned exposure (Reserve risks).

As SIL is in run-off, it therefore has no live exposure to premium risk.

Insurance risk – objective and strategy

The Group 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 that 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. The Group 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. The Group manages this risk through the Group's Reserving Committees, which support the CFO in their responsibility to formally review claims reserves on a quarterly basis.

Insurance risk – reinsurance

The Group uses reinsurance to manage insurance risk and holds both excess of loss cover, to cover large motor losses, and catastrophe cover.

Quota share reinsurance arrangements are also held to cede parts of the portfolio.

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.

The Group's investments are held within the trading subsidiaries, Tradex and SIL. Investments are held primarily 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.

The Group 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.

The Group invests in a limited amount of equities, index linked bonds, real-estate backed lending and collective investment funds which are of a more long term nature and are either held to match the long term liabilities or to improve rates of return on surplus capital.

The Group writes contracts of insurance in the United Kingdom, and both insurance liabilities and borrowings are denominated in sterling. Funds include investments denominated in Euros, US Dollars and Polish Zloty as well as sterling and consequently there is an exposure to currency risk, however this is reduced through the use of currency hedges.

The Group is not exposed to any pensions risk.

In summary, the key market risks that the Group 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.

29. Risk management and capital management (continued)

Market risk – objective and strategy

The Group's objective is to deliver an appropriate balance of investment return and underlying risk, targeting an increased return whilst appropriately matching to the liabilities.

The Group's investments are managed by Hundle & Partners Limited. The Group has 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.

The Group 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 Committees 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.

Market risk – sensitivity analysis

The most significant aspect of market risk to which the Group 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 the Group's solvency.

An increase of 100 basis points in credit-spreads would reduce the value of the Group's assets at the end of the financial year by approximately £2.4m. This would reduce the Group's solvency (on all bases) by £1.8m net of tax, 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 SIL's 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 £14.4m and the value of net PPO reserves by £4.4m. A decrease in the discount rate of 100 basis points would increase the value of PPO reserves by £18.9m and the value of net PPO reserves by £5.7m.

Climate change

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

The Group has considered its exposure to climate change risk as at the end of December 2023. The Group has 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 the Group's investment portfolio has concluded that there is not an undue level of risk. Most of the Group'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.

It is incumbent on the Group's management, Board and investment partners to ensure that the longer term investment strategy is managed effectively and minimises the risk of exposure to climate affected sectors.

Currency risk

The Group is exposed to currency risk on its investments as corporate bonds, other government bonds and real-estate backed lending include investments denominated in Euros, US Dollars and Polish Zloty. The Group holds currency hedges against the majority of these assets to minimise exposure. The table below shows the exposures with reference to net assets/liabilities.

2023	**£m**
Great British Pound	**47.1**
Euro	**(0.2)**
US Dollar	**2.8**
Polish Zloty	**8.4**
Total	**58.1**

The Group had no currency exposure in 2022.

All amounts are stated in £m unless otherwise indicated

29. Risk management and capital management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The Group'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.

The Group 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 the Group's operational risks.

Third Party Risk is high, given the Group's reliance on MISL for the management of policies and claims. This is managed via agreements with Tradex and SIL, which are subject to regular monitoring.

The Group 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.

Liquidity risk

Liquidity risk is the current and prospective risk to earnings or solvency arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses. The Group'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.

The actual and projected levels of cash and other assets held are monitored and managed through the Group's IFCC, with oversight by the Group BRC and Board. In addition, in between IFCC meetings, regular monitoring of liquid assets 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 2023								
Insurance contract liabilities	481.9	602.2	88.2	144.7	74.8	41.4	25.1	228.0
Financial liabilities at amortised cost:								
Reinsurance liabilities	56.1	56.1	56.1	-	-	-	-	-
Insurance and other payables	50.0	50.0	50.0	-	-	-	-	-
	588.0	**708.3**	**194.3**	**144.7**	**74.8**	**41.4**	**25.1**	**228.0**
Other liabilities	-							
Total recognised liabilities	**588.0**							

The Group had no financial liabilities in 2022.

All amounts are stated in £m unless otherwise indicated

29. 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. The Group 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.

The Group'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 the Group. 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.

The Group manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on pages 41 to 42 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. The Group places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

As at the statement of financial position date, the table below provides analysis of the credit rating of those assets subject to credit risk. The Group'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 2023						
Investment assets:						
Corporate bonds	**11.6**	**8.3**	**29.1**	**60.0**	**4.9**	**113.9**
Gilts	**-**	**44.6**	**-**	**-**	**-**	**44.6**
Other government bonds	**30.9**	**8.9**	**5.2**	**-**	**-**	**45.0**
Equities	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Real-estate backed lending	**-**	**-**	**-**	**-**	**27.5**	**27.5**
Collective investments	**-**	**-**	**-**	**-**	**27.6**	**27.6**
Foreign exchange hedges & options	**-**	**-**	**-**	**-**	**0.5**	**0.5**
Deposits with credit institutions	**-**	**-**	**45.8**	**-**	**-**	**45.8**
Reinsurance assets	**-**	**89.6**	**125.4**	**0.1**	**0.2**	**215.3**
Insurance receivables and other assets	**-**	**-**	**-**	**-**	**157.7**	**157.7**
Cash and cash equivalents	**41.1**	**-**	**85.9**	**-**	**-**	**127.0**
	83.6	**151.4**	**291.4**	**60.1**	**218.6**	**805.1**
Salvage and subrogation						**4.2**
Assets not subject to credit risk						**17.8**
						827.1

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.

The Group had no assets subject to credit risk in 2022.

ii) Capital Management

Objectives when managing capital

The Group'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.

29. Risk management and capital management (continued)

Required capital

Under the Solvency II regulatory framework, the Prudential Regulation Authority (PRA) requires the Group 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, the Group 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.

i) 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%. The Group 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.

ii) 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.

(b) Internal required capital

The SHL Board sets a capital risk appetite. As the material risks arising occur within the insurance subsidiaries, the more detailed risk limits are delegated to Tradex and SIL.

The Group has maintained capital above all its regulatory requirements throughout 2023, and SCR coverage has been maintained above the risk appetite throughout the year. The Group reviews the solvency position of Tradex and SIL through monthly or, when appropriate, more frequent monitoring. Quarterly reports on the solvency of the Group are provided to the Board. Quarterly reports on the solvency of Tradex and SIL are provided to the Investments, Finance and Capital Committee and to the Board.

In the event that the Group 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 – for example, 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.

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 the Group 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 the Group'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. In addition, the perpetual subordinated debt and term subordinated debt held by the business, disclosed in note 21, served as tier 1 restricted and tier 2 capital respectively, and any deferred tax assets are classified as tier 3 capital.

100% of tier 1 own funds held at the end of the reporting period were eligible to meet the SCR and MCR. The Solvency II regulations restrict the use of lower tier capital to support the SCR, the value of Tier 2 and Tier 3 items not being permitted to exceed 50% of the value of the SCR. 100% of tier 1 capital, 20% of tier 2 capital and 0% of tier 3 capital is eligible to meet the MCR. Restricted Tier 1 items must form less than 20% of total Tier 1 items eligible to meet the SCR and MCR.

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

All amounts are stated in £m unless otherwise indicated

30. Business combinations

Following a strategic decision by its shareholders, on 7 July 2023 SHL acquired 100% of the issued share capital of TIHL and its subsidiary Tradex, for a consideration of £13.0m. On 10 October 2023, SHL acquired 100% of the issued share capital of SFHL and its subsidiary SIL for a consideration of £16.5m. Both Tradex and SIL are general insurance companies, regulated by the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA'). The assets acquired and liabilities assumed have been recorded at their fair value for the purposes of the acquisition balance sheet and included in the consolidated financial statements of the Group.

Tradex contributed £28.1m to net earned premium and a loss of £17.0m to the Group since acquisition. SIL contributed £0.1m expense to net earned premium and a profit of £2.9m to the Group since acquisition.

The table below shows the fair value of the 100% share of the net assets acquired, liabilities assumed, consideration paid and the resulting goodwill.

	Value on acquisition		
	Tradex	**SFHL Group (SFHL & SIL)**	**Total**
Financial investments	**26.0**	**232.6**	**258.6**
Deposits with credit institutions	**10.4**	**-**	**10.4**
Reinsurers' share of technical provisions:			
- Provision for unearned premiums	**31.3**	**-**	**31.3**
- Claims outstanding	**106.4**	**66.6**	**173.1**
Debtors arising out of direct insurance operations:			
- policyholders	**-**	**0.1**	**0.1**
- intermediaries	**22.9**	**5.4**	**28.2**
Debtors arising out of reinsurance operations	**2.3**	**-**	**2.3**
Corporation tax debtor	**-**	**0.6**	**0.6**
Other debtors	**4.6**	**2.0**	**6.6**
Tangible assets	**1.3**	**-**	**1.3**
Cash and cash equivalents	**5.2**	**109.6**	**114.8**
Accrued interest	**-**	**3.3**	**3.3**
Other prepayments and accrued income	**0.6**	**0.6**	**1.2**
Total assets	**211.0**	**420.8**	**631.8**
Technical provisions:			
- Provision for unearned premiums	**46.9**	**-**	**46.9**
- Claims outstanding	**142.1**	**268.3**	**410.4**
Creditors arising out of direct insurance operations	**-**	**0.6**	**0.6**
Creditors arising out of reinsurance operations	**4.1**	**0.3**	**4.4**
Debenture loans	**5.0**	**70.2**	**75.2**
Other creditors including taxation and social security	**3.5**	**0.7**	**4.2**
Accruals and deferred income	**0.5**	**2.5**	**3.0**
Total liabilities	**202.1**	**342.6**	**544.7**
Net identifiable assets	**8.9**	**78.2**	**87.1**
Total consideration paid in cash	**13.0**	**16.5**	**29.5**
Goodwill recognised on acquisition	**4.1**	**(61.7)**	**57.6**

The goodwill asset is to be amortised to offset recognition of the deferred tax asset which was unrecognised at the point of purchase of Tradex and, as such, is anticipated to be fully amortised within 12 months.

The negative goodwill from the acquisition of the SFHL Group is to be recognised in the income statement to offset any reserves strengthening, by book of business, relating to the reserves at the point of acquisition, over a maximum period of five years.

31. Parent company

SHL owns 100% of the share capital of Tradex, SFHL and SIL. Together these entities form the Group. PSC Nominee 4 Limited is the principal investor in the Group, holding over 90% of the share capital of SHL, with other investors individually holding no more than 2%. The results of SHL and its subsidiaries are not consolidated into any other financial statements.

All amounts are stated in £m unless otherwise indicated

32. Related party transactions

Related party balances and transactions in the year were as follows:

Group

Balances at the end of the year	**2023**	2022 (unaudited)
Amounts due from related parties:		
Markerstudy Insurance Services Limited	**117.3**	-
Clegg Gifford & Co Limited	**23.9**	-

Transactions during the year	**2023**	2022 (unaudited)
Income from transactions with related parties:		
Markerstudy Insurance Services Limited	**99.7**	-
Clegg Gifford & Co Limited	**49.4**	-
Expenditure from transactions with related parties:		
Markerstudy Insurance Services Limited	**(8.2)**	-
Clegg Gifford & Co Limited	**(12.5)**	-
Pollen Street Capital	**-**	-

Related party transactions consist of:

- Transactions with MISL, representing amounts charged for the provision of insurance services under outsourcing agreements.
- Investment management fees charged by Pollen Street Credit.

Company

Balances at the end of the year	**2023**	2022 (unaudited)
Amounts due from other group companies:		
Soteria Insurance Limited	**41.9**	-
Soteria Finance Holdings Limited	**59.9**	-
Amounts due to other group companies:		
Tradex Insurance Company Limited	**(3.2)**	-

Transactions during the year	**2023**	2022 (unaudited)
Income from transactions with related parties:		
Markerstudy Insurance Services Limited	**0.1**	-
Expenditure from transactions with other group companies:		
Soteria Insurance Limited	**(0.1)**	-
Soteria Finance Holdings Limited	**(0.1)**	-
Tradex Insurance Company Limited	**(0.1)**	-

All amounts are stated in £m unless otherwise indicated

32. Related party transactions (continued)

Key management compensation

Key management is considered to include the members of the Company's Board and the Board and Executive committee members of SHL's subsidiaries. Details of transactions and balances with Key Management during the financial period are provided below.

Group	2023	2022 (unaudited)
Salaries and short term benefits	0.9	-

In respect of Executive and Non-Executive Directors

	2023	2022 (unaudited)
Salaries and short term benefits	0.6	-

In respect of the highest paid director:

	2023	2022 (unaudited)
Salaries and short term benefits	0.2	-

33. 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, gilts and equities 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 e) iv) Other financial instruments on page 24.

Valuation of financial investments

2023	Level 1	Level 2	Level 3	Total
Financial investments	-	213.1	49.7	262.8

The Company held no financial instruments during 2022.

34. Events after the Reporting Period

TIHL was dissolved on 9 January 2024.

On 19 February 2024, ownership of SIL transferred from SFHL to SHL and so SIL has become a directly owned subsidiary of SHL.

On 28th March 2024, Saturn Holdings Limited subscribed for 15 new shares issued by Tradex Insurance Company Limited for £37,500,000. This equates to an increase in share capital in Tradex of £15 and an increase in share premium of £37,499,985 at the subscription date.

SAOFS was dissolved on 4 June 2024.

On 26 June 2024, Saturn Holdings Limited subscribed for 1 new share issued by Tradex Insurance Company Limited for £2,500,000. This equates to an increase in share capital of £1 and an increase in share premium of £2,499,999 at the subscription date.

On 28 June 2024, Tradex issued £50m tier 1 restricted (£20m) and tier 2 (£30m) debt which was wholly purchased by SHL.

Tradex was previously a private company limited by shares until it re-registered to a public company on 2 August 2024.