ABC Insurance Limited

Annual Report and Financial Statements
For the year ended 31 December 2021

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Company Information

Directors

List of directors who were in place during the financial year with date of appointment or resignation if during the year

Registered office

Address

Independent auditor

Name and address

Secretary and Insurance Manager

Name and address

Registered number

Directors' Report

The directors present their report and the audited financial statements of ABC Insurance Limited (the "Company") for the year ended 31 December 2021.

The Company

Details of the ownership of the Company.

The company continues to monitor the effects of the coronavirus (COVID-19) outbreak, which was declared as a pandemic by the World Health Organization on 11 March 2020. COVID-19 has caused significant numbers of sickness and death globally, along with substantial isolation where people may only leave their homes for critical journeys (i.e. to shop for food or if identified as a key worker). Whilst it would appear that life is getting back to some form of normality, the eventual outcome remains uncertain.

The impact of COVID-19 is not expected to result in a material deterioration in financial performance over 2022.

Whilst full financial implications are not yet known, based on the Company's current strong financial and liquidity position, the Directors believe the Company is in a position to withstand the potential for financial impact from the pandemic.

Principal activities
The principal activity of the Company is that of underwriting insurance business.

Results
The results for the period are shown on pages 7 and 8.

Dividends
In the board meeting that took place on the 18 March 2022 the board approved a dividend proposal of £3,500,000 out of profits to 31 December 2021 (2020: dividend paid of £5,500,000).

Directors
The directors who served during the year and up to the date of this report are as shown on page 1.

Going concern
The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. The key method for assessing going concern is through the business planning process that considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate.

Based on the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2021.

Statement of Directors’ Responsibilities

The directors are responsible for preparing the Directors’ Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with a notice served under Section 35 (6) of the Insurance Business (Bailiwick of Guernsey) Law, 2002 (the “Notice”) by the Guernsey Financial Services Commission, rather than on a “true and fair” basis.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law 2002 as modified by the Notice. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor
As required by the condition imposed by the Notice, the directors who held office at the date of approval of this Directors' Report confirm, in accordance with section 249 of the Companies (Guernsey) Law, 2008, that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Audited financial statements
The financial statements of the Company have been audited in accordance with section 36 of the Insurance Business (Bailiwick of Guernsey) Law, 2002; however, they are exempt from the requirement to be audited under the Companies (Guernsey) Law, 2008, in accordance with section 256 of that law.

Approved on behalf of the Board of Directors

Director

Date

Independent Auditor's Report to the Members of ABC Insurance Limited

Our opinion is unmodified

We have audited the financial statements of ABC Insurance Limited (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income - technical account and non-technical account, and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

The financial statements have been prepared under the accounting policies set out therein and the provisions of the Insurance Business (Bailiwick of Guernsey) Law, 2002 as modified by the Notice served under section 35(6) (the "Notice").

In our opinion, the accompanying financial statements have been prepared, in all material respects, in accordance with the provisions of the Insurance Business (Bailiwick of Guernsey) Law, 2002 as modified by the Notice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - special purpose basis of accounting

We draw attention to note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to comply with the provisions of the Insurance Business (Bailiwick of Guernsey) Law, 2002 as modified by the Notice. As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and

- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We have nothing to report on other matters on which we are required to report by exception

We are required to examine the annual return of the Company pursuant to section 33 of the Insurance Business (Bailiwick of Guernsey) Law, 2002 and report if in our opinion, the information given in the return is inconsistent with the financial statements. We have nothing to report in respect of this examination.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 3, the Directors are responsible for: the preparation of the financial statements in accordance with the provisions of the Insurance Business (Bailiwick of Guernsey) Law, 2002 as modified by the Notice; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of ABC Insurance Limited (continued)

The purpose of this report and restrictions on its use by persons other than the Company's members, as a body

This report is made solely to the Company's members, as a body, in accordance with our terms of engagement as detailed in our letter of 8 January 2020. Our audit work has been undertaken so that we might state to the 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 its members, as a body, for our audit work, for this report, or for the opinions we have formed.

<u>Name of audit firm</u>

Chartered Accountants

Guernsey

March 2022

Statement of Comprehensive Income
For the year ended 31 December 2021

Technical Account

		2021		2020	
	Note	£	£	£	£
Earned premiums	*4*				
Net premiums written		3,091,618		6,026,830	
Movement in provision for unearned premiums		1,434,760		(59,574)	
Net premiums earned			**4,526,378**		**5,967,256**
Claims paid	*4*				
Gross amount		(1,461,200)		(832,968)	
Claims recoveries		475,000		-	
Risk management fund costs		(169,081)		(279,478)	
			(1,155,281)		(1,112,446)
Changes in other technical provisions	*4*				
Movement in claims reserves		(22,039)		(369,222)	
Change in IBNR reserve		(78,081)		8,351	
Change in risk management fund		-		-	
			(100,120)		(360,871)
			(1,255,401)		(1,473,317)
Balance on the technical account			**3,270,977**		**4,493,939**

The notes on pages 11 to 18 form an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2021

Non-technical Account

		2021		2020	
	Notes	£	£	£	£
Balance from the technical account			**3,270,977**		**4,493,939**
Income	*4,6*				
Bank interest		10,377		15,873	
			10,377		15,873
Expenses	*4*				
Management fees		(46,500)		(46,500)	
Corporate Governance fees		(2,250)		(2,250)	
Directors' fees		(25,892)		(26,082)	
Audit fee		(14,473)		(11,902)	
Insurance licence fees		(7,582)		(7,426)	
Sundry expenses		(1,295)		(18,989)	
			(97,992)		(113,149)
Profit for the year			**3,183,362**		**4,396,663**

There was no other comprehensive income and therefore the profit for the year represents the total comprehensive income.

The above results relate to the continuing operations of the Company.

The notes on pages 11 to 18 form an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2021

	Notes	2021 £	2021 £	2020 £	2020 £
Current assets					
Debtors arising out of reinsurance operations	8	3,958,056		5,517,647	
Prepayments	8	421		-	
Accrued interest	8	4,280		1,648	
Cash and cash equivalents	5	10,199,549		8,726,987	
			14,162,306		14,246,282
Current liabilities					
Inter-company loan	9	-		(2,000,000)	
Creditors arising out of insurance operations	9	(154,164)		(90,033)	
Other creditors	9	(16,671)		(13,500)	
			(170,835)		(2,103,533)
Total assets less current liabilities			**13,991,471**		**12,142,749**
Technical provisions	4				
Provision for unearned premiums		(3,882,148)		(5,316,908)	
Claims outstanding					
- claims reserves		(1,624,885)		(1,602,846)	
- IBNR reserve		(176,891)		(98,810)	
			(5,683,924)		(7,018,564)
Net assets			**8,307,547**		**5,124,185**
Capital and reserves					
Share capital	10		600,000		600,000
Retained earnings			7,707,547		4,524,185
Total Shareholders' equity			**8,307,547**		**5,124,185**

Approved and authorised for issue by the Board of Directors on 2022 and signed on its behalf by:

Director

Date

The notes on pages 11 to 18 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2020	**600,000**	**5,627,522**	**6,227,522**
Profit for the year	-	4,396,663	4,396,663
Dividends	-	(5,500,000)	(5,500,000)
At 31 December 2020	**600,000**	**4,524,185**	**5,124,185**
Profit for the year	-	3,183,362	3,183,362
At 31 December 2021	**600,000**	**7,707,547**	**8,307,547**

There was no other comprehensive income and therefore the profit for the year represents the total comprehensive income.

The notes on pages 11 to 18 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2021

1. General information

ABC Insurance Limited (the “Company") is a captive insurance company registered in Guernsey.

The Company is a wholly owned subsidiary of ABC Corporate Holdings Limited, a company incorporated in England and Wales.

The ultimate holding company and ultimate controlling party is ABC plc, also incorporated in England and Wales.

ABC plc and its subsidiaries manage a portfolio of funds whereby they are mandated to ensure any insurance obligations of the Funds, as provided for in the occupational leases or for vacant properties and are complied with in full. The insurance cover is insured by Aviva this Company provides reinsurance to both parties.

2. Basis of preparation

The financial statements have been prepared under the historical cost convention. As permitted by Guernsey company law, the directors have elected to prepare the financial statements in accordance with a notice served under section 35(6) of the Insurance Business (Bailiwick of Guernsey) Law, 2002 (the “Notice”) by the Guernsey Financial Services Commission (“GFSC”), rather than on a “true and fair” basis. The financial statements are also prepared in accordance with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002 as modified by the Notice.

The Company has applied FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (issued in September 2015) (‘FRS102’) and FRS103 *Insurance Contracts* (‘FRS103’). As permitted by the Notice, the Company has taken advantage (in certain respects) of a derogation from the disclosure requirements set out in paragraphs 4.4 to 4.9 of FRS103.

The Company is a “qualifying entity”, whereby the financial statements of the Company are consolidated in the financial statements of ABC plc. These consolidated financial statements are available from its registered office, ABC plc, London . The Company made use of disclosure exemptions under FRS 102 in respect of the following:

- cash flow statement and related notes; and
- key management personnel compensation in total.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. The key method for assessing going concern is through the business planning process that considers profitability, liquidity and solvency. The business planning process considers the Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate. This includes consideration by the board of any impact arising from the COVID-19 Pandemic.

2. Basis of preparation

Going concern (continued)

Based on the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company’s financial statements for the year ended 31 December 2021.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company’s accounting policies, which are described below in note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The only judgements which had a significant effect on the amounts recognised in the financial statements were those relating to the estimation of the provision for claims outstanding, including reported claims and claims incurred but not reported (“IBNR”).

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant, and the advice of expert loss adjusters is obtained where appropriate.

However, given the uncertainty in establishing claims provisions, actual results may differ from the historical pattern on which these estimates are based and the cost of settling individual claims may exceed that assumed, and it is likely that the final outcome will prove to be different from the original liability established.

The estimation of the provision for claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. Claims IBNR may often not be apparent to the insured for a considerable period after the event, and classes of business where the IBNR proportion of the total provision is high will typically display greater variations between initial estimates and final outcomes.

The 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, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

4. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the Company's financial statements:

Insurance contracts

i) Classification

The Company issues contracts that transfer insurance risk which are classified as insurance contracts. As a general guideline, the Company defines significant insurance risk as the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

ii) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued. Gross premiums written are calculated in accordance with the terms of each insurance contract and accounted for in the period in which those contracts incepted.

iii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

iv) Fronting fees

Fronting fees, which represent fees and other related expenses, are deferred over the period in which the related premiums are earned.

4. Principal accounting policies (continued)

v) Claims paid and recovered

Claims paid comprise claims and related expenses paid in the year. Claims paid are calculated in accordance with the terms of each insurance agreement and are recognised as an expense when paid to the insured.

Recoveries on claims are recognized as income with the corresponding asset being recognized on the statement of financial position.

vi) Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate 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 estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

The IBNR methodology agreed by the Board is to use a 31-day period pro-rata over the financial year to cover the delay it takes claims to be notified to the Company by the fronting insurer. In addition the Board also apply an IBNR reserve to the last expired UW year to account for late notification and development on known claims using a range between 10% - 20%.

vii) Risk management fund

The funds received form part of premiums and are used to settle costs associated with the risk management of the properties.

At each year-end, the fund balance is restated to cover costs known to the Company for the current financial year, with the surplus/deficit amount being transferred to/from the statement of comprehensive income. On renewal of the insurance cover, part of the premium is transferred into the fund to cover costs.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

i) Initial recognition and subsequent measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

If a financial asset or liability is measured subsequently, it will be at undiscounted cash or consideration to be received and all non-current instruments are measured at amortized cost using the effective interest method.

Financial assets and liabilities are offset in the statement of financial position when and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. Principal accounting policies (continued)

Financial instruments (continued)

ii) Derecognition of financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, is cancelled or expires.

Receivables

Receivables arising from insurance contracts are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

Impairment of financial assets
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events;

(a) significant financial difficulty of the issuer or debtor;
(b) a breach of contract, such as a default or delinquency in payments;
(c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
(d) the disappearance of an active market for that financial asset because of financial difficulties; or
(e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

    i) adverse changes in the payment status of issuers or debtors in the group; or
    ii) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the statement of comprehensive income.

4. Principal accounting policies (continued)

Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, liquid investments with original maturities of three months or less that can be withdrawn at any time without penalty.

Cash flow statement
Under FRS 102 the Company is a qualifying entity on the grounds that it is a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and the Company is included in the consolidation. As a qualifying entity, the Company takes advantage of the cash flow statement disclosure exemption.

Trade and other payables
Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Notes to the Financial Statements
For the year ended 31 December 2021

Investment income
Interest income earned on cash deposits is accounted for through profit or loss on an accruals basis. Investment income is included gross of withholding tax. Interest income is recognised through profit or loss for all debt instruments.

Expenses
Expenses are accounted for on an accruals basis. Administrative expenses are accounted for in the statement of comprehensive income – Non - technical account.

Related party disclosure
Under FRS 102 Section 33 - Related Party Disclosures, the Company is exempt from disclosing transactions within the ABC plc group, as it is wholly owned.

Foreign currencies
The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its “functional currency”). The directors have considered the currency in which the original capital was raised, where distributions would be made and ultimately the currency in which capital would be returned in a liquidation. The Company is a subsidiary of ABC plc, whose own functional currency is pounds sterling. All insurance activities are denominated in pounds sterling. On balance, the directors believe that pounds sterling best represents the functional currency of the Company. For the purpose of the financial statements, the results and financial position are expressed in pounds sterling, which is the presentational currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

5. Financial risk and capital management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The main components of this are market risk (primarily interest rate risk), credit risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

Market risk:

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of differences in market interest rates.

5. Financial risk and capital management (continued)
Market risk (continued)

Interest rate risk is managed by investment guidelines set out by the Board of Directors. The Company’s investments as at year-end comprised cash and cash equivalents.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument could fluctuate because of changes in market interest rates at the reporting date.

An increase of 25 basis points in market interest rates could result in additional profit for the period of £25,249 (2020: £21,567). A decrease in 25 basis points in market interest rates (on the assumption that such a reduction is possible) could result in a decrease in the profits for the period.

Credit risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

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- Debtors arising out of insurance operations;
- Accrued interest; and
- Cash and cash equivalents.

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to regular review. The Board of Directors approves limits on the level of credit risk by category and territory.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2021	2020
	£	£
Debtors arising out of insurance operations	**3,958,056**	5,517,647
Accrued interest	**4,280**	1,648
Cash and cash equivalents	**10,199,549**	8,726,987
Total assets bearing credit risk	**14,161,885**	14,246,282

	2021	2020
	£	£
AA	**3,958,056**	5,517,648
A	**10,203,829**	8,728,634
Total assets bearing credit risk	**14,161,885**	14,246,282

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and the directors expect no significant losses from non-performance by these counterparties.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The Board sets limits on the minimum proportion of maturing funds available to meet anticipated liabilities and unexpected levels of demand.

The Company is exposed to regular calls on its available cash resources mainly from claims arising from insurance contracts. The Company manages its cash resources so that there are funds available to meet such calls.

5. Financial risk and capital management (continued)
Liquidity risk (continued)

The following tables indicate the expected maturity of the Company's financial liabilities, including claims outstanding, and financial assets.

	Total	**Within 1 year**
	£	£
At 31 December 2021		
Creditors arising out of insurance operations	**154,164**	154,164
Other creditors	**16,671**	16,671
Claim reserves including IBNR	**1,801,776**	1,801,776
	1,972,611	1,972,611

At 31 December 2020

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Creditors arising out of insurance operations	**90,033**	90,033
Other creditors	**13,500**	13,500
Inter-company loan	**2,000,000**	2,000,000
Claim reserves including IBNR	**1,701,656**	1,701,656
	3,805,189	3,805,189

Capital management
The Company defines capital resources in accordance with regulations prescribed by the GFSC.

The capital structure of the Company consists of equity attributable to equity shareholders, comprising issued share capital and retained earnings.

The Company's objectives when managing capital are:

i) to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
ii) to provide a framework for monitoring the financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events; and
iii) to safeguard the Company's ability to continue as a going concern.

Under the rules prescribed by the GFSC, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance. The Company must also maintain suitable matching of assets and liabilities.

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the Board on a regular basis, ensuring that the Company meets its capital requirements at all times. The Company has complied with the rules in respect of capital, throughout 2021 and 2020.

Effective from 1 May 2015, the Insurance Business (Solvency) Rules 2015, require that the Company must at all times hold Regulatory Capital Resources greater than or equal to its Minimum Capital Requirement ("MCR") and its Prescribed Capital Requirement ("PCR").

As at 31 December 2021, the Company held a surplus of £7,525,476 above its MCR requirement of £782,071 and a surplus of £7,137,754 above its PCR requirement of £1,164,793.

6. Investment income

	2021	2020
	£	£
Bank interest	**10,377**	15,873
	10,377	15,873

7. Taxation

The Company is liable to income tax at the standard rate of 0% in Guernsey (2020:0%).

8. Receivables

	2021	2020
	£	£
Debtors arising out of insurance operations	**3,958,056**	5,517,647
Prepayments	**421**	-
Accrued interest	**4,280**	1,648
	3,962,757	5,519,305

9. Current liabilities

	2021	2020

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	£	£
Creditors arising out of insurance operations	**154,164**	90,033
Audit fee	**14,000**	13,500
Inter-company loan	**-**	2,000,000
Sundry	**2,671**	-
	170,835	2,103,533

On the 21 December 2020 the Company entered into a Loan Facility Arrangement with ABC Real Estate Limited ("Lender") whereby the Lender agreed to loan to this Company a sum of £2,000,000, with the facility amount up to £4,000,000. The arrangement had been based on the renewal terms with the insurer with the addition of a new article in the reinsurance agreement, Article 10.1.

The facility did not bear interest and could be repaid in full, on demand, provided such repayment did not place the borrower in breach of its requirements on the 2020/2021 reinsurance agreement with Aviva.

In accordance with article 10.1 the cash requirements was met and therefore the Company was in a position to repay back the loan to the lender, which was paid in full on 29th July 2021.

10. Share capital

	2021	2020
	£	£
Authorised:		
100,000 ordinary shares of £1 each	**100,000**	100,000
500,000 preference shares of £1 each	**500,000**	500,000
	600,000	600,000
Issued and fully paid:		
100,000 ordinary shares at £1 each	**100,000**	100,000
500,000 preference shares at £1 each	**500,000**	500,000
	600,000	600,000

The Company has one class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

11. Subsequent events

In the board meeting that took place on the 18 March 2022 the board approved a dividend proposal of £3,500,000 that had been requested by the Shareholder.