

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2022



Company Number: 03406899

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

CONTENTS

	Page
Company information	1
Strategic report	2
Directors' report	4
Income statement	6
Statement of income and retained earnings	8
Statement of financial position	9
Notes to the financial statements	11
Independent auditors' report	20

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

COMPANY INFORMATION

Directors

B V M Strickland MA, FCA (Chairman)
W R Hardy MA, ACA (Deputy Chairman)
R E Beveridge MA
W J Cain BCom, FCA

Appointed 1 June 2023

Resigned 11 May 2023

Secretary

R E Beveridge MA

Scheme Administrators

D Y Schwarzmann, D N Rackham
PricewaterhouseCoopers LLP
7 More London
London SE1 2RT

Bankers

Barclays Bank Plc
Leicester
Leicestershire
LE87 2BB

Management Company

PricewaterhouseCoopers Business Services Limited
1 Embankment Place
London WC2N 6RH

Auditors

Greenback Alan LLP
Chartered Accountants
Statutory Auditor
89 Spa Road
London SE16 3SG

Legal Advisers

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London E14 5JJ

Actuarial Advisers

PricewaterhouseCoopers LLP
7 More London
London SE1 2RT

Registered Office

One Chamberlain Square
Birmingham
B3 3AX

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors have pleasure in presenting their Strategic Report for the year ended 31 December 2022.

Review of business

In early January 2001, the directors of Chester Street Insurance Holdings Limited ('Holdings'), the wholly owned subsidiary of The Chester Street Employers' Association Limited (the 'Association'), received the preliminary findings of an actuarial review of its reserves, which indicated that a substantial increase would be required in the level of its provision for claims incurred but not yet reported, particularly insofar as that provision was for losses forecast to arise out of claims for asbestos-related diseases written many years ago. These findings reflected the impact of significant increases in both the number and average cost of asbestos-related disease claims notified during 2000.

The Board of Holdings, having considered those findings and taken appropriate advice, determined that Holdings' liabilities exceeded its assets and that Holdings was insolvent. On 9 January 2001, the High Court granted the petition of the directors for the appointment of Dan Schwarzmenn and Colin Bird of PricewaterhouseCoopers LLP ('PwC') as Provisional Liquidators.

Following a unanimous vote of the creditors attending and voting at meetings held on 5 February 2001, a Scheme of Arrangement (the 'Scheme') was sanctioned by the Court on 28 February 2001 and became effective on 5 March 2001, with Dan Schwarzmenn and Colin Bird of PwC as Scheme Administrators. On 25 July 2001, Mark Batten, also of PwC, replaced Colin Bird as a Provisional Liquidator and Scheme Administrator.

In 2007, an application was made to the Court to discharge the Provisional Liquidators from office and this order was granted on 15 August 2007. From this date Dan Schwarzmenn and Mark Batten were no longer Provisional Liquidators of Holdings but remained as Scheme Administrators. On 30 June 2017, Mark Batten retired as a partner of PwC. In accordance with the terms of the Scheme, the Creditors' Committee approved the appointment of Nigel Rackham, a director of PwC, as his replacement as Scheme Administrator with effect from 1 July 2017.

At the end of March 2001, the Scheme Administrators set an initial payment percentage of 5% pursuant to the Scheme. In May 2001, the Association of British Insurers ('ABI') announced that its members would fund compensation for certain claimants, whose claims would otherwise fail to be met in full because their former employer was no longer able to pay and the claim failed to meet the criteria for compensation by the Financial Services Compensation Scheme ('FSCS'), formerly the Policyholders Protection Board ('PPB').

Payments to creditors under the Scheme began to be made in July 2001. The Company is cooperating with its policyholders, FSCS, ABI and Department for Business, Energy and Industrial Strategy ('BEIS'), in order to ensure that claimants receive prompt payment.

In accordance with the Scheme, the payment percentage is reviewed annually. Following actuarial advice and in consultation with the Creditors' Committee, the payment percentage was reduced from 5% to 3% with effect from 1 January 2013 and currently remains at that level.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

Results

The results for the year ended 31 December 2022 are set out in the income statement on pages 6 and 7. This year's technical provisions have been adjusted according to the results of the year-end 2022 PwC actuarial projections of IBNR claims liabilities. These projections are based on a combination of stochastic and deterministic models, utilising Chester Street's exposure and claims data and PwC's market insights, with reference being given to the work of the Institute and Faculty of Actuaries UK Asbestos Working Party ('AWP').

Key financial performance indicators

Since the Scheme became effective on 5 March 2001, the objective of the Scheme Administrators, supported by the directors and Creditors' Committee, has been to ensure that the business is run-off in as orderly manner as possible and in accordance with the terms of the Scheme.

The directors monitor the Company's financial performance using the following key financial performance indicators:

	2022	2021
	£'m	£'m
Claims paid	65.5	78.2
Profit / (loss) for the financial year	133.0	(28.4)
Financial investments	91.2	123.3
Technical provisions	1,324.0	1,539.6

Principal risks and uncertainties

The financial statements include a provision for the estimated outstanding insurance liabilities of the Company. The estimated outstanding insurance liabilities include provision for claims that are not expected to be agreed for many years, and there is considerable uncertainty as to the amounts at which they will ultimately be agreed.

In preparing their report on the estimated outstanding insurance liabilities of the Company, PwC, the consulting actuaries, have worked to a number of assumptions agreed in consultation with the Scheme Administrators. As disclosed in note 3, a significant degree of judgement is used in assessing outstanding insurance liabilities, including those claims incurred but not reported, the ultimate cost of which cannot be known with certainty at the balance sheet date.

The change in the provision for claims, as reported in the Income Statement – Technical Account – General Business on page 6, has been assessed by the directors and is considered by them to be appropriate.

Future developments

The Company will continue to run-off claims arising under insurance policies written prior to 1 January 1990 in accordance with the terms of the Scheme.

One Chamberlain Square
Birmingham
B3 3AX

By order of the board



R E Beveridge
Secretary
25 September 2023

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors have pleasure in presenting their report and financial statements for the year ended 31 December 2022.

Directors

The directors of the Company during the year are as shown on page 1. W J Cain served as director throughout the year but resigned on 11 May 2023. W R Hardy was appointed on 1 June 2023. No director is, or was, beneficially interested in the issued share capital of the Company.

Employees

The Company had 3 employees during the year.

Management services provider

The management service provider is PricewaterhouseCoopers Business Services Limited, a wholly owned subsidiary of PricewaterhouseCoopers LLP.

Political and charitable contributions

No contributions were made during the year.

Financial instruments

The Company's financial instruments at the balance sheet date comprised mainly investments, bank balances and Scheme Creditors.

The main risk arising from the Company's financial instruments is liquidity risk.

Financial assets

The Company has no financial assets other than short-term debtors, cash at bank and investments.

Registered number

03406899

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a break up basis as it is inappropriate to presume that the Company is a going concern.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director in order to make oneself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Greenback Alan LLP, have expressed their willingness to continue in office.

One Chamberlain Square
Birmingham
B3 3AX

By order of the board



R E Beveridge
Secretary
25 September 2023

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

Technical Account – General Business
Discontinued operations

	Note	2022 £'m	2021 £'m
Claims paid			
- gross amount		60.9	73.1
- handling costs		4.6	5.1
	2	65.5	78.2
Change in the provision for claims			
- gross amount		(213.8)	(52.3)
- handling costs		(1.8)	(5.1)
		(215.6)	(57.4)
Claims incurred		(150.1)	20.8
Net operating expenses	5	(5.4)	1.4
Total technical charge		(155.5)	22.2
Balance on the technical account for general business		155.5	(22.2)

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

Non-Technical Account Discontinued operations	Note	2022 £'m	2021 £'m
Balance on the technical account for general business		155.5	(22.2)
Realised movement on investments	6	(12.6)	(0.4)
Unrealised losses on investments		(9.8)	(5.7)
		(22.4)	(6.1)
Investment expenses and charges		(0.1)	(0.1)
Balance on the non-technical account		(22.5)	(6.2)
Profit / (loss) on ordinary activities before tax		133.0	(28.4)
Tax on ordinary activities	7	-	-
Profit / (loss) retained for the financial year		133.0	(28.4)

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'m	2021 £'m
Discontinued operations			
Technical account for general business		155.5	(22.2)
Non-technical account		(22.5)	(6.2)
Profit / (loss) on ordinary activities before tax		133.0	(28.4)
Tax on ordinary activities	7	-	-
Profit / (loss) for the financial year		133.0	(28.4)
Retained loss at 1 January		(2,861.8)	(2,833.4)
Retained loss at 31 December		(2,728.8)	(2,861.8)

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

Assets	Note	2022 £'m	2021 £'m
Investments			
Other financial investments	8	91.2	123.3
Debtors			
Other debtors		0.1	-
		0.1	-
Other assets			
Cash at bank and in hand		3.2	0.5
Prepayments and accrued income			
Accrued interest		0.5	0.4
Total assets		95.0	124.2

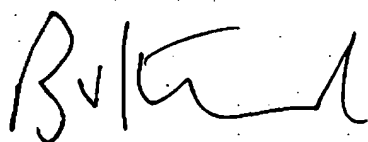
CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STATEMENT OF FINANCIAL POSITION

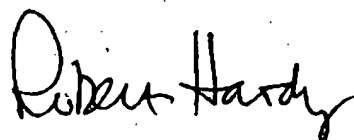
AS AT 31 DECEMBER 2022

Liabilities	Note	2022	2021
		£'m	£'m
Capital and reserves			
Share capital	9	5.0	5.0
Share premium		66.3	66.3
Profit and loss account		(2,728.8)	(2,861.8)
Shareholders' Funds		(2,657.5)	(2,790.5)
Technical provisions			
Claims outstanding	3	1,324.0	1,539.6
Provisions for other risks and charges	10(b)	18.1	25.5
Creditors			
Other creditors		0.2	0.2
Scheme creditors	2	1,408.5	1,347.8
		1,408.7	1,348.0
Accruals and deferred income		1.7	1.6
Total liabilities		95.0	124.2

Approved by the board on 25 September 2023



B V M Strickland
Director



W R Hardy
Director

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

General information

Chester Street Insurance Holdings Limited (In Scheme of Arrangement) is a limited liability company registered in England and Wales. The registered office is One Chamberlain Square, Birmingham, B3 3AX.

Basis of presentation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", Financial Reporting Standard 103 "Insurance Contracts" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention (as modified by revaluation of certain assets and the recognition of certain financial assets and liabilities at fair value).

The financial statements are presented in sterling (£) which is also the functional currency for the Company.

Going concern

The accounts have been prepared on a break-up basis as the Company is not a going concern, having entered into a Scheme of Arrangement with its creditors under section 425 of the Companies Act 1985 ('the Scheme') on 5 March 2001.

Cash flow statement

The Company has not prepared a cash flow statement on the grounds that its parent undertaking presents a consolidated cash flow statement that includes the cash flows of the Company.

Basis of accounting

The annual basis of accounting has been applied to all classes of business.

Investments

Listed investments are stated at middle market value based on prices quoted by the relevant exchanges.

Investment income

All realised and unrealised gains are taken to the profit and loss account. Realised gains are measured by reference to original cost. Since the Company is no longer a going concern all the investment return has remained in the non-technical account.

Dividends received from companies in the United Kingdom are shown at the net amount received.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a continuing 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.

The key judgements and sources of estimation uncertainty that have a significant effect on the amount recognised in the financial statements are described below.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (continued)

Claims

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date. Any estimate represents a point within a range of possible outcomes. Further details of estimation techniques are given in note 3. Claims provisions are not discounted.

Claims handling expenses

The provision for claims handling expenses (which is included in the balance sheet within technical provisions - claims outstanding) consists of all estimated future costs of negotiating and settling claims until the date that the directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income.

Run-off provision

The run-off provision consists of all estimated operational costs (other than the cost of negotiating and settling claims) until the date that the directors have anticipated that all claims will have been settled under the Scheme. This provision has been discounted at a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made.

2 Claims

Claims paid in the profit and loss account reflect all amounts settled for defence costs and damages claims as well as all claims handling costs. The payments include amounts settled by policyholders, the FSCS and BEIS. Scheme creditors represent the portion of agreed claims which have been paid to the claimants by other parties, but which still remain a liability of the Company. Claims handling costs in the period are deducted against the technical provision.

3 Technical provisions

Below is a summary of the gross outstanding claims:

	2022	2021
	£'m	£'m
Notified outstanding claims	186.7	204.4
Incurred but not reported claims	1,095.5	1,291.6
	1,282.2	1,496.0
Claims handling provision	41.8	43.6
	1,324.0	1,539.6

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 Technical provisions (continued)

Traditional actuarial claims development techniques, which rely on historical accident year loss development to derive development factors, cannot be used to project future disease claim liabilities. This is because development in one calendar year will often impact many accident years. Furthermore:

- Diseases caused by asbestos are latent for long periods of time and historical claim reporting patterns therefore contain little information in the first years following exposure.
- Some of the claims behaviour observed for the disease classes, particularly in relation to deafness claims, is driven by claimant solicitor behaviour, rather than for any underlying epidemiological reasons.

The actuarial approach adopted has involved the use of Chester Street's historical data, in conjunction with market data and experience of modelling asbestos-related and other disease claims in similar situations. IBNR estimates at different percentiles are produced to encapsulate the uncertainty in reserve estimation for asbestos-related disease liabilities. The technical provisions have been adjusted according to the results of the year-end 2022 PwC actuarial projections of IBNR claims liabilities.

This approach takes into account the nature and materiality of the business and type of data available. Skilled claims technicians applying their experience and knowledge to the circumstances of individual claims generally set case estimates. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated cost of claims, in order that it represents the most likely outcome taking account of all the uncertainties involved. Claims provisions are not discounted.

Fundamental uncertainty

The Company has a substantial exposure to disease claims arising from employers' liability policies written many years ago. The majority of this exposure is in respect of asbestos.

There is significant uncertainty in the estimation of future claim payment amounts for long-tailed disease liabilities. The uncertainty in reserve estimation for asbestos-related disease liabilities is particularly severe, reflecting the limited data available particularly in relation to exposure analysis, the latency period for asbestos-related claims and mortality profile of claimants. The claims are extremely long tail in nature and the latency period for these claims is significant. There is very limited available data in respect of the number of employees of policyholders exposed to asbestos. The future costs arising from these claims cannot, therefore, be predicted with certainty. Accordingly, the provision for claims outstanding in respect of asbestos-related claims relies on a considerable degree of judgement as to the number of claims that will emerge, the timing of the claims and the amounts at which they will be settled.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 Technical provisions (continued)

The provision for disease claims is based on information currently available and the ultimate liability may vary as a result of subsequent information and events, and could result in significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the accounts for the period in which the adjustments are made.

The technical provisions represent the directors' best estimate of the likely outcome of the run-off of the Company's insurance liabilities and are therefore not comparable with any figure that may be inferred from the level of the payment percentage to Scheme Creditors set by the Scheme Administrators pursuant to the Scheme. The technical provisions are fundamentally uncertain because of the difficulty of forecasting the future development of the claims to which they relate.

Provision for claims handling expenses

Included in the balance sheet within technical provisions - claims outstanding is the provision for claims handling expenses of £41.8m (2021: £43.6m). This consists of all estimated future costs of negotiating and settling claims until the date that the directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income. The claims handling expense provision is fundamentally uncertain because of the difficulty of forecasting the future development of the claims to which they relate.

4 Run-off expenses

	2022	2021
	£'000	£'000
Included in run-off expenses are:		
Auditors' remuneration	33	33
Directors' emoluments (see note 4.1)	53	53

4.1 Directors' emoluments

	2022	2021
	£'000	£'000
Aggregate emoluments	53	53

Aggregate emoluments of highest paid director

	2022	2021
	£'000	£'000
Aggregate emoluments	23	23

4.2 Employment costs

	2022	2021
	£'000	£'000
Wages and salaries	53	53
Social security costs	4	4
	57	57

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

4.3 Average number of employees

The average number of employees during the year was 3 (2021: 3).

5 Operating expenses

	Note	2022 £'m	2021 £'m
(Decrease) / increase in run-off provision	10(b)	(5.4)	1.4

6 Realised movement on investments

	2022 £'m	2021 £'m
Income from investments	1.8	1.5
Realised losses on investments	(14.4)	(1.9)
	(12.6)	(0.4)

7 Taxation

	2022 £'m	2021 £'m
Tax charge		
UK corporation tax at 19% (2021: 19%)	-	-
Tax on profit on ordinary activities	-	-

Factors affecting tax charge for period

The tax assessed for the year is lower (prior year: higher) than the standard rate of corporation tax in the UK. The differences are explained below.

	2022 £'m	2021 £'m
Non-technical account		
Profit / (loss) on ordinary activities before tax	133.0	(28.4)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	25.3	(5.4)
Amounts disallowed under corporate interest restriction rules	3.9	0.8
Brought forward losses utilised	(29.2)	-
Unutilised losses carried forward	-	4.6
Tax charge for the year	-	-

Factors affecting current and future tax charges

The corporation tax rate is 19% for profits arising from 1 April 2017 to 31 March 2023. Profits arising from 1 April 2023 will be subject to the new corporation tax rate of 25%. Deferred taxes at the balance sheet date have been measured using the 25% tax rate and reflected in note 10 a) of the financial statements.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Other financial investments

	Current Value		Cost	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Debt securities and other fixed income securities	91.2	123.3	102.0	124.2

9 Share capital

	2022 £'m	2021 £'m
Allotted, called up and fully paid 5,000,002 ordinary shares of £1 each	5.0	5.0

10 Provisions for other risks and charges

a) Deferred taxation

A potential deferred tax asset of £660m (2021: £700m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses. The Company also has a potential deferred tax asset of £6m (2021: £1m) in respect of corporate interest restriction disallowances, which has also not been recognised, and can be recovered if reactivated in future periods.

b) Provision for run-off expenses

	2022 £'m	2021 £'m
Balance at 1 January	25.5	26.7
Utilisation of provision	(2.0)	(2.6)
(Decrease) / increase in provision	(5.4)	1.4
Balance at 31 December	18.1	25.5

The provision for run-off expenses totals £18.1m (2021: £25.5m). This consists of all estimated operational costs (other than the cost of negotiating and settling claims) until the date that the directors have anticipated that all claims will have been settled under the Scheme. The provision is fundamentally uncertain because of the difficulty of forecasting the future development of the claims. This provision has been discounted at 4.02% (2021: 0.96%), a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made. The undiscounted provision is £26.0m (2021: £28.1m). The average settlement period assumed in discounting this provision is 8.3 years (2021: 10.0 years).

11 Parent undertaking

The Company's parent undertaking is The Chester Street Employers' Association Limited, a company incorporated in England.

The ultimate holding company prepares group accounts and copies can be obtained from the parent company's registered office at One Chamberlain Square, Birmingham, B3 3AX.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

12 Contingent liabilities

The Company has entered into an arrangement with the Association, whereby the Company settles the liabilities of the Association for the purpose of discharging its debts as they fall due to creditors in the ordinary course of business, whilst it is in the interest of Holdings' creditors. This arrangement does not cover liabilities arising out of the Association's negligence, fraud, and wilful default, breach of duty, breach of trust or other like action.

Note 3 gives details of the estimation techniques used in determining the outstanding claims provision. As stated in this note there is considerable uncertainty as to the quantum of the ultimate settlement of these liabilities. To the extent the ultimate cost is greater than that provided, there is a contingent liability in respect of this uncertainty.

13 Segmental reporting

The Company ceased to write business in the liability insurance market segment with effect from 1 January 1990.

14 Related party transactions

In the opinion of the directors, the following may be considered to be Related Parties in terms of FRS 102:

- a) the Scheme Administrators (A partner and a director in the United Kingdom firm of PricewaterhouseCoopers LLP)
- b) the management services provider (PricewaterhouseCoopers Business Services Limited, a wholly owned subsidiary of PricewaterhouseCoopers LLP)

These transactions are required to be disclosed:

Amounts paid in cash book during the year:	2022	2021
	£'m	£'m
PricewaterhouseCoopers LLP		
- Scheme Administrators' fees	1.6	2.3
- Actuarial and other services and fees	0.3	0.4
Amounts paid to the management services provider	4.4	6.6
Amounts included in accruals at 31 December:	2022	2021
	£'m	£'m
PricewaterhouseCoopers LLP	0.9	1.0
PricewaterhouseCoopers Business Services Limited	0.6	0.4

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14 Related party transactions

Amounts included in provisions at 31 December:	2022	2021
	£'m	£'m
PricewaterhouseCoopers LLP	15.8	22.5
PricewaterhouseCoopers Business Services Limited	41.8	43.6

The Company has taken advantage of the exemption under FRS 102 not to disclose transactions with other group companies where all the voting rights are controlled within the group.

15 Contingent asset

Under the terms of the Scheme, the Company is able to pay elective defence costs. Where these exceed the dividend payable by the Company, the excess is set off against future dividend entitlements of the same policyholder.

The FSCS has agreed that, in respect of defence costs incurred on pre 1972 claims made under the Third Parties (Rights Against Insurers) Act 1930, it can be treated in the same way as a solvent policyholder thus deducting defence costs funded by Holdings from dividends payable to FSCS on a rolling account basis for each individual insolvent policyholder.

At 31 December 2022, the Company had a contingent asset comprising the value of elective defence costs paid in excess of dividend entitlements. The recoverability of this asset is dependent upon future claims arising from the same policyholders as well as the ultimate level of dividend payable and as such cannot be estimated with reliability, and accordingly this asset is not included in the Balance Sheet.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement)

Opinion

We have audited the financial statements of Chester Street Insurance Holdings Limited (In Scheme of Arrangement) for the year ended 31 December 2022, which comprise the income statements, statement of income and retained earnings, statement of financial position, and the related notes, 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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.

Key Audit Matter

Technical provisions

Technical provisions included on the statement of financial position and detailed in Note 3 represent the directors' estimate of liabilities for future settlement of notified outstanding claims and incurred but not reported claims, and for claims handling expenses. There is a considerable level of uncertainty as to the amounts at which these will ultimately be settled. Due to the size of the balances and the degree of uncertainty they constitute a key audit matter. Audit work was therefore focused on the claims, both open and closed, and the files to support the claims were tested in detail. The loss runs that summarise these claims were examined for accuracy and completeness. The actuarial report was reviewed to ensure that the actuary was appropriately qualified, and that the assumptions and methodologies applied were appropriate. The resulting provision was then agreed to the financial statements.

Emphasis of Matters

Technical provisions

We draw attention to Note 3 of the financial statements, which describes the technical provisions. Given the nature of these issues, it is not possible to quantify the potential effects of the resolution of these uncertainties.

Basis of preparation

We draw attention to Note 1 of the financial statements. The Company is not a going concern and the directors do not consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in Note 1.

Our opinion is not modified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement) (continued)

Other information

The directors are responsible for the other information. The other information comprises the information in the Annual Report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinion on other matter 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

We have nothing to report in respect of the following matters where 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 by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 4 and 5, 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 determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement) (continued)

Our 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 Auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained a general understanding of the Company's legal and regulatory framework through enquiry of management concerning: their understanding of relevant laws and regulations; the entity's policies and procedures regarding compliance; and how they identify, evaluate and account for claims. We also drew on our existing understanding of the company's industry and regulation.

We understand that the Company complies with the framework through having in place robust procedures and policies that are developed with and monitored by the scheme administrators and by outsourcing and taking additional professional legal, tax, actuarial and accounting advice on relevant specialist functions and areas including the preparation of financial statements and corporate tax compliance.

In the context of the audit, we considered those laws and regulations: which determine the form and content of the financial statements; which are central to the Company's ability to conduct its business; and where failure to comply could result in material penalties. We identified the following laws and regulations as being of significance in the context of the Company:

- The Companies Act 2006, FRS 102, FRS 103, UK corporate tax laws.

The senior statutory auditor led a discussion with all members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The areas identified in this discussion were:

- Manipulation or error in the technical provisions leading to understatement of the provisions at the year-end date;
- Manipulation or error in the investments leading to over-valuation at the year-end date;
- Manipulation or error in raising accruals and provisions for costs incurred but not invoiced before the statement of financial position date that often entail a significant degree of judgement;

The procedures we carried out to gain sufficient appropriate audit evidence in the above areas included:

- Performing substantive testing on appropriate samples, and investigating any discrepancies identified;
- Interrogating the actuarial review of claim reserves as at the statement of financial position date for accuracy of data, assumptions, methodologies, and calculations, and investigating any discrepancies.
- Reviewing the financial statement disclosures and testing to supporting documentation;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement) (continued)

Our responsibilities for the audit of the financial statements (continued)

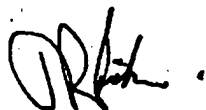
- Documenting the assumptions and judgements made by management in their significant accounting estimates and challenging these with management;
- Identifying and testing journal entries, in particular those around year-end, and involving unusual postings, account combinations, or amounts;

Overall, the senior statutory auditor was satisfied that the engagement team collectively had the appropriate competence and capabilities to identify or recognise irregularities. In particular, both the senior statutory auditor and the audit manager have a number of years' experience in dealing with similar companies that prepare accounts under FRS 102 and FRS 103.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' 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 Auditors' 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.



Jonathan Richard Fisher (Senior Statutory Auditor)

for and behalf of
Greenback Alan LLP

Chartered Accountants
Statutory Auditor

89 Spa Road
London
SE16 3SG

25 September 2023