

Liverpool Victoria Insurance Company
Limited

Solvency and Financial Condition
Report 2023

Summary

This is the Solvency and Financial Condition Report (“SFCR”) for Liverpool Victoria Insurance Company Limited (“LVIC”, “the Company”). Publication of an SFCR is a mandatory requirement of the Solvency II Directive for all insurance companies domiciled in the EU. Although the UK has left the EU, the Prudential Regulatory Authority (“PRA”) has adopted an equivalent approach.

The ultimate parent undertaking is Allianz Societas Europaea (“Allianz SE”). Globally, Allianz SE is a financial services provider with more than 100 million retail and corporate customers in more than 70 countries. More information about Allianz SE and its operations around the world can be found on the Allianz SE website.

During 2023 the Company adopted the International Financial Reporting Standards (“IFRS”) 9 and 17. Unless stated otherwise, the 2022 comparative figures in this document have not been restated. For further information on this, please refer to the Company’s Annual Report and Financial Statements.

The SFCR is made up of five key sections that together give a comprehensive view of the Company’s business strategy and performance, its system of governance for the sound and prudent management of the business (“System of Governance”), its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position.

Section A looks at the business and performance of LVIC during 2023. It starts with a section describing the legal structure of the Company and its place in the Allianz Holdings plc group (“the Group”) before covering the two main sources of the Company’s result – the underwriting of insurance and return on the investment portfolio. LVIC reported a loss before tax for the year of £48m (2022: loss of £25m, restated). The Company had a quota share (“QS”) reinsurance arrangement of 40% in both 2022 and 2023 impacting the net results.

Section B looks at the System of Governance. This section describes the ways in which the Company ensures that its business runs effectively and in compliance with the regulations of Solvency II.

The Company’s Board of Directors has overall oversight of the business, while day to day running is conducted by management. The actions of management take place within the confines of the System of Governance. Further details regarding the Board and its committees is provided in sections B.1.

The Company operates a “three lines of defence” model to risk management. The Enterprise Risk Management Framework is embedded in the operations of the Company and is managed by the Chief Risk Officer (“CRO”).

The Own Risk and Solvency Assessment (“ORSA”) process forms a substantial part of the Company’s Enterprise Risk Management Framework. Produced at least annually, the ORSA report is provided to the Board to inform it of all risks facing the Company and outlines how these are assessed and managed. The ORSA process is overseen by the Board Risk committee.

Finally, the section reviews how the Company relies on other companies to undertake some activities on its behalf. In Section B.7, the Company has outlined the most material outsourced activities.

Section C reviews the risks which the Company faces. These include:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

Summary continued

Each type of risk is covered in turn. The risk itself and the methods for understanding, managing and mitigating that risk are described, and any major concentration of that risk type is identified.

This section confirms that each risk type to which the Company is exposed to is appropriately understood, managed and mitigated.

Section D reviews the statement of financial position of the Company. The statement of financial position is the main mechanism by which the solvency of the Company, the amount of capital it has available to protect it and its policyholders against a shock, is assessed. This section describes the methods used to value the items on that statement of financial position in accordance with Solvency II and explains any significant valuation differences to the valuation applied in the preparation of the Annual Report and Financial Statements.

In section D.2 Technical Provisions are considered. Technical Provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity. They include the funds the Company has put aside specifically to pay future claims. Section D.2 examines in detail the separate elements that make up the technical provisions and explains the actuarial methods and assumptions used.

Section E refers to the capital available within the Company for the purpose of absorbing shocks. The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR"). The MCR is the level of Own Funds below which the Company may no longer legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

The Company uses the default standard formula approach as prescribed by Solvency II to determine its capital requirements.

As at 31 December 2023 the MCR was £143m and is covered by £559m of eligible Own Funds (tier 1 only). As at 31 December 2023 the SCR was £435m and is covered by £597m of eligible Own Funds (£559m tier 1 and £38m tier 3). The Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 137%. The Company has fully complied with the SCR throughout the period.

Further information about the quality of the Own Funds and the makeup of the SCR is provided in sections E.1 and E.2.

The SFCR contains a Statement of Directors' Responsibilities and the independent auditors' opinion in respect of those parts of the SFCR which are audited.

Finally, the following Quantitative Reporting Templates ("QRTs") have been disclosed as an appendix to the SFCR;

- S.02.01 Balance Sheet
- S.05.01 Premiums, claims and expenses by line of business
- S.12.01 Life and Health SLT Technical Provisions
- S.17.01 Non-life Technical Provisions
- S.19.01 Non-life Insurance Claims Information
- S.19.01 Non-life Insurance Claims Information
- S.23.01 Own Funds
- S.25.01.21 Solvency Capital Requirement (for undertakings on Standard Formula)
- S.28.01 Minimum Capital Requirement (Only life or non-life insurance or reinsurance activity)

A. Business and Performance

This section is unaudited.

A.1 Business

Name and legal form of undertaking

The Company is a UK incorporated and domiciled company limited by shares, under company number 03232514.

Registered office: 57 Ladymead, Guildford, Surrey, England, GU1 1DB

Name and contact details of the supervisory authority responsible for financial supervision.

The Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”) are responsible for the financial supervision of the Company.

PRA: 20 Moorgate, London, EC2R 6DA

FCA: 12 Endeavour Square, London, E20 1JN

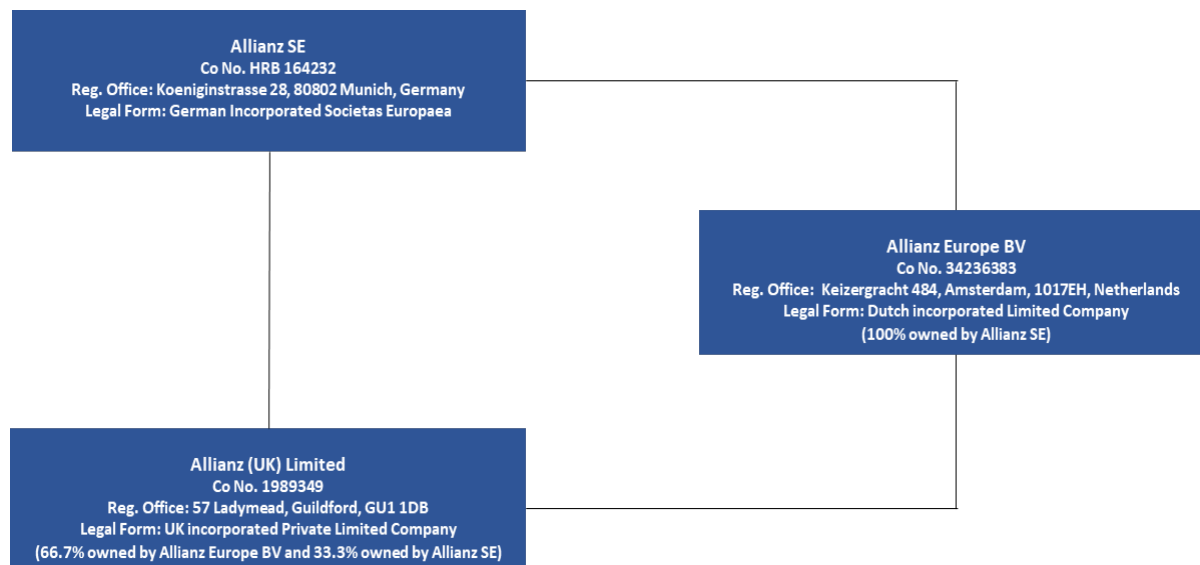
Name and contact details of the external auditor

PricewaterhouseCoopers LLP: 7 More London Riverside, London, SE1 2RT

Description of the holders of qualifying holdings in the undertaking

The Company is a wholly owned subsidiary (via intermediate holding companies) of Allianz SE, incorporated in Germany (Registered address; Koeniginstrasse 28, 80802 München, Germany).

The structure charts below describe the position of Allianz (UK) Limited (“Allianz UK”) within the Allianz SE group, including details of the holders of qualifying holdings in the Company, and also its material related undertakings.

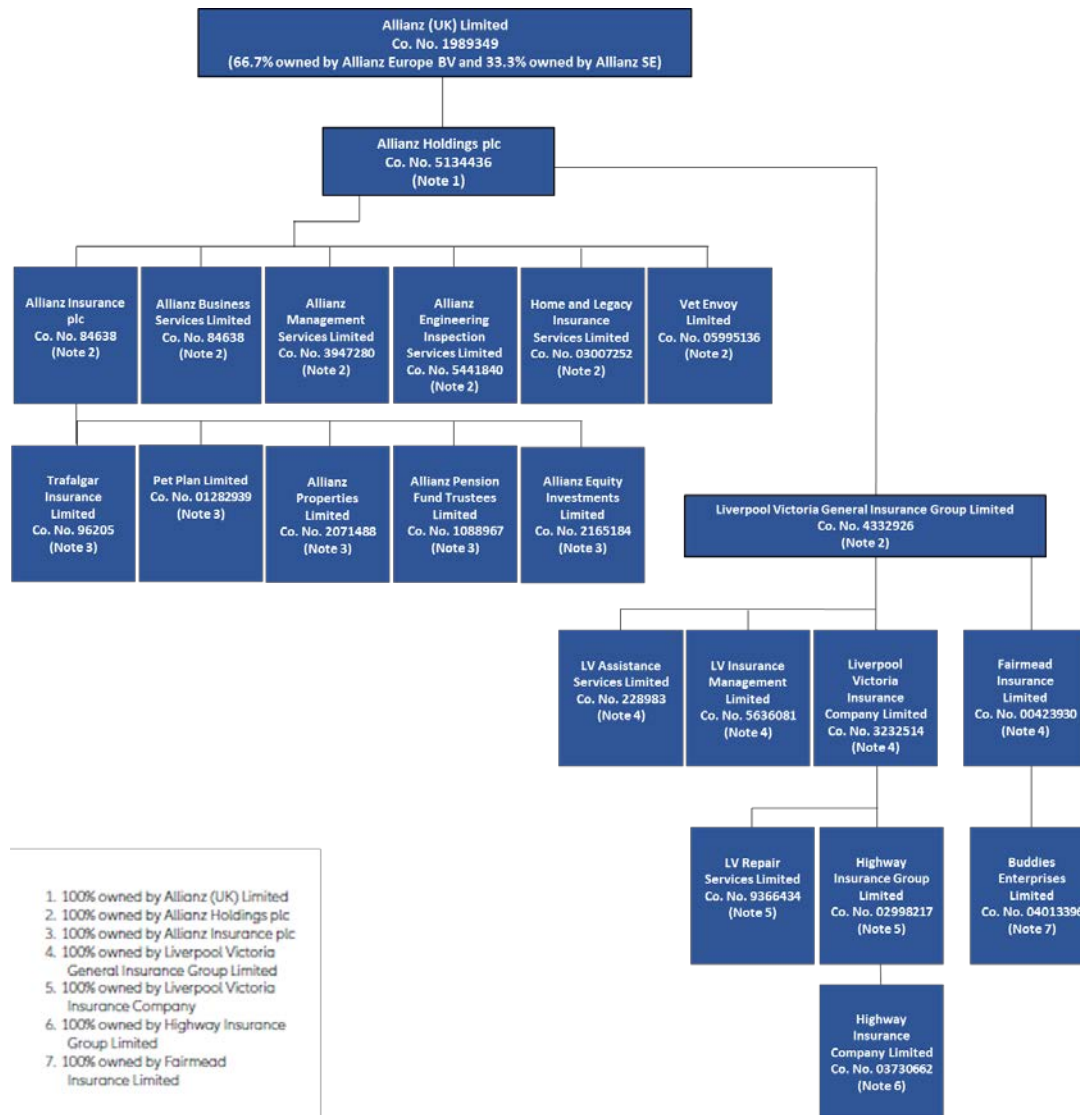


A. Business and Performance continued

Details of the undertakings within the group

All Allianz UK Group companies are UK incorporated. As at 31 December 2023, all Allianz UK companies had their registered offices at 57 Ladymead, Guildford, GU1 1DB.

All Allianz UK companies shown on this page are private limited companies except for Allianz Holdings plc (“AZH”) and Allianz Insurance plc (“AZI”) which are public limited companies.



A. Business and Performance continued

Material lines of business and material geographic areas

LVIC underwrites non-life insurance contracts within the UK.

LVIC conducts general insurance business through both the direct and broker distribution channels. The primary sources of premium income are from the sale of Motor insurance products and Home insurance products. Motor insurance products include Private Car and Motorcycle. LVIC also underwrites Road Rescue and Travel Insurance.

As such the following Solvency II non-life lines of business are written on either a standalone or bundled product basis:

- Motor vehicle liability insurance
- Other Motor insurance
- Fire and other damage to property insurance
- General liability insurance
- Legal expenses insurance
- Assistance
- Medical expense insurance

Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

The UK continues to experience difficult economic conditions and there are a number of external factors that impacted the 2023 result. In particular, the heightened inflationary environment which posed a significant challenge across the market. Although inflation began to fall towards the end of 2023 and further drops may be expected in 2024, the longer-term outlook remains uncertain. In addition, there were several weather events that impacted the insurance service result during the year. Investment income has benefited from higher yields; however this is partially offset by the increased discount unwind on claims reserves as a result of a higher discount rate.

There have been no significant changes to the structure or operations of the Company throughout 2023.

The SFCR and all tables within it are presented in pounds sterling rounded to the nearest million, which is consistent with the presentation in the IFRS financial statements. The QRTs are presented in pounds sterling rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A. Business and Performance continued

A.2 Underwriting performance

The table below summarises the premium volume and underwriting performance in 2023 split by Solvency II line of business. The table shows the performance net of reinsurance including the whole account quota share.

	2023		
	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio
Motor vehicle liability	778	392	117%
Other Motor	492	248	118%
Fire and other damage to property	315	157	108%
Assistance	55	36	71%
Legal Expenses	32	20	28%
Medical expense	5	3	74%
General liability	3	1	128%
Total	1,680	857	111%

The discounted combined operating ratio ("COR") has been calculated as (Net claims incurred + Expenses incurred) ÷ Net earned premiums.

The Company has a whole account quota share reinsurance arrangement with an Allianz SE Group reinsurance company with 40% of premiums and claims ceded and the Company receiving a commission contribution of 19.3% of ceded earned premiums. This has the benefit of improving the solvency position by reducing the capital the Company is required to hold. Further, it keeps the profits generated by the Company entirely within the wider Allianz SE Group.

As noted above, the UK continues to experience tough market conditions, in particular inflationary and macro-economic conditions have continued to pose challenge. As a result, significant rate increases have been implemented across the business supporting gross premium growth of 17.5% year-on-year. Motor growth (Solvency II lines of business: Motor vehicle liability, Other Motor and assistance) was supported by the first year of renewals for Flow (the fully digital Motor product), in addition to rate increases applied across core Motor book in light of significant inflation. Home (Solvency II lines of business: fire and other damage to property) also saw growth as a result of higher average premiums, in addition to the larger book of business as a result of the migration of policies from Fairmead Insurance Limited ("FIL") following the acquisition in 2020. Other product lines were significantly below 2022 levels as a result of the migration of the Pet business to AZI, however excluding this, premiums were only down slightly year-on-year.

Strong cost disciplines were maintained through controlling acquisition costs and operating expenses, particularly given the ongoing inflationary pressures. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

Claims performance continued to see significant pressure from high inflation throughout 2022 and into 2023, although premium increases, particularly in the second half of the year, have reduced the impact. Motor has experienced a multitude of challenges including rising repair costs, labour shortages and supply chain as a result of the global economic and political environment. The UK has also experienced multiple storms which have impacted the Home account, although costs remain within the annual planned weather allowance. While these pressures have impacted performance in 2023, impacts have been partly offset by increased discounting benefit driven by higher interest rates and improvements to the expense ratio as a result of robust expense management, specifically in light of the of ongoing inflationary pressures.

A. Business and Performance continued

A.3 Investment performance

The table below summarises the investment performance during 2023 of the funds directly invested by the Company and provides a comparison with the prior year.

(£m)	Carrying value 31/12/2021	Net additions /(disposals)	Net unrealised gains /(losses)	Carrying value 31/12/2022	Net additions /(disposals)	Net unrealised gains /(losses)	Carrying value 31/12/2023	2023			2022		
								Net realised gains /write downs	Income	Expense	Net realised gains /write downs	Income	Expense
Fixed Income	1,237	171	(141)	1,267	340	66	1,673	(1)	43	(2)	(3)	21	(2)
Government	386	38	(48)	376	168	16	560	1	10	(2)	(5)	5	(2)
Securitised	34	8	(6)	36	-	2	38	-	1	-	-	1	-
Corporates	817	125	(87)	855	172	48	1,075	(2)	32	-	2	15	-
Collective Investment Undertakings	113	(59)	(2)	52	(9)	-	43	-	2	-	(6)	-	-
Loans	79	(46)	(2)	31	41	-	72	-	3	-	-	2	-
Total	1,429	66	(145)	1,350	372	66	1,788	(1)	48	(2)	(9)	23	(2)

The table above shows the investments held directly by the Company.

The investment strategy of the Company is to invest in a high quality, well diversified investment portfolio that maximises investment return, subject to solvency, liquidity, asset liability matching and other constraints. The Company invests in insurance assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the business model, nature and duration of its insurance liabilities.

Our investment portfolio is well diversified and high quality. Government bonds include an allocation to emerging market issuers. Covered bonds in the portfolio are classified under corporates. The allocation to high quality, corporate bonds remained overweight to enhance yield. Overall liquidity remains strong with a sufficient level of cash being retained in money market instruments.

Investment income in 2023 was £48m compared with £23m in 2022. Income increased strongly over the year due to rising interest rates, which increased reinvestment yields and supported income from floating rate assets (covered bonds, floating rate notes). Net unrealised losses decreased over the year by £66m, mainly due to narrowing credit spreads on corporate bonds. Investment expenses were flat compared with the previous year.

A.4 Performance of other activities

In 2023, the Company incurred £303m (2022: £287m) other expenses in management charges from a fellow Group undertaking for administrative and claims management services.

Instalment income rose to £53m in 2023 (2022: £45m). The £8m increase relates to interest amounts charged to policyholders who pay for their general insurance on a monthly basis compared to fully paying for the insurance at the time of purchase.

A. Business and Performance continued

A.5 Any other information

Capital injections of £60m in March 2023 and £130m in June 2023 were received from the immediate parent Company Liverpool Victoria General Insurance Group (“LVGIG”). Additionally in 2023, LVIC made a capital contribution of £45m to Highway Insurance Group Limited (“HIG”).

Two dividends were received during 2023 from Liverpool Victoria Repair Services (“LVRS”), £40m on 23 June 2023 and £30m on 21 December 2023.

The SCR ratio as at 31 December 2023 is 137% (2022: 123%).

Inflationary pressure and macroeconomic factors continue to impact all aspects of the UK Motor and Home insurance markets, from pricing and claims to repairs and procurement. In addition, the UK is seeing an increase in the number of weather events. Our focus remains on profitability and, as a result, significant rate increases have been deployed throughout 2023 to combat continued inflationary pressures.

In 2023, LVIC made a capital contribution to one of its subsidiary companies, HIG, of £45m and this was then transferred from HIG to Highway Insurance Company Limited (“HICO”). The purpose of this capital contribution was to strengthen HICO’s SCR solvency ratio. Following this, LVIC reviewed the value of its investment in the subsidiary company, HIG. The review of the Net Asset Value (“NAV”) over that initial cost indicated the need to complete an impairment assessment. The Company has relied upon the value in use method and impaired the value of the underlying subsidiary, HIG by £31m.

B. System of Governance

This section is unaudited.

B.1 General information on the system of governance

Boards and committees

The Company leverages the governance structure of the Group. The boards of the Company, AZH and other key regulated entities and holding companies within the Group (together the “Combined Boards”) have the same Directors. Board meetings for all of the entities are held together, with each company discussing matters relevant to it and the directors considering matters from the perspective of each relevant company where relevant for each item on the agenda.

On 31 December 2023, the Board of the Company comprised of six independent non-executive Directors (including an independent non-executive Chair), one shareholder nominated non-executive Director and two executive Directors.

During the year, the Combined Board was strengthened by the appointments of Ulf Lange as an executive Director on 30 May 2023 and Oliver Corbett as an independent non-executive Director on 1 November 2023, whilst Christian Dinesen stepped down from his role as a non-executive Director on 10 April 2023, Simon McGinn stepped down from his role as an executive Director on 30 April 2023, Fernley Dyson stepped down from his role as an executive Director on 29 May 2023 and Stephen Treloar stepped down from his role as executive Director on 30 June 2023.

The executive Directors comprise the Group Chief Executive Officer (“Group CEO”), (Colm Holmes), and the Group Chief Financial Officer (“CFO”), (Ulf Lange). The role of the Chair (being the Chair of the Board of AZH as well as the Company) are separate and clearly defined. The Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. The Group CEO is responsible for executing the strategy of the Company.

The Combined Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of the Group as a whole.

The Combined Board has established several committees and a system of internal control to ensure the efficient and effective operation of the Group’s businesses. The committees include the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee (“FICO”). In 2023, all of the Board’s committees with the exception of the FICO were chaired by a non-executive Director. The Board’s committees provided constructive challenge and oversight across the work carried out by those committees. The FICO had one non-executive Director member, who stepped down from the Committee following the financial year end due, and is chaired by the CEO. Following the financial year end, the FICO’s governance was changed making it a sub-committee of the AZH Executive Committee. The Committees are responsible for oversight of their subject matter on behalf of the Group including the Company. Rolling forward agendas are reviewed at committee meetings and updated, as required, to ensure members have an advanced view of the key matters for consideration throughout the year. The Company’s Board is satisfied that the governance structure is appropriate and that the Committees effectively consider matters on behalf of the Company.

The Board of the Company develops the strategy of the Company, monitors its performance and has oversight of the conduct of the Company. The Board of the Company considers the external reporting of the Company.

The implementation of the Company’s strategy, including a system of internal control, is delegated by the Board to the Group CEO who is supported in this by the AZH Executive committee and its sub-committees which consist of the accountable executives for the Group. The AZH Executive committee was previously a committee of the Board and during the year a project to simplify the sub-committee governance structure was implemented to support the Group CEO in effective implementation of the Group’s strategy.

The Board regularly reviews its effectiveness and during 2023 an independent governance effectiveness review (the “Review”) was carried out by Deloitte LLP. The Review inter alia covered Board and committee effectiveness in all respects. The methodology used included a documentation review, Board and senior management interviews, observation of Board and Committee meetings and workshops. The review concluded that governance was effective with a relatively small number of areas where there was scope for improvement. During 2023, the Board and its Committees continued to monitor progress against agreed actions arising from the Review which were closed before the year end.

B. System of Governance continued

The Directors of the Company as at 31 December 2023 are detailed below, as well as their memberships of the AZH Board committees. Some directors had stepped down from their directorship during 2023 as outlined in the table below. In 2023, changes were implemented to the sub-committee governance structure resulting in AZH Executive committee no longer being a committee of the Board but deriving authority from the Group CEO who the committee supports in implementing the Group's strategy. Following the 2023 financial year end, the Finance and Investment committee became a sub-committee of the AZH Executive committee.

		AZH Executive committee	Risk committee	Audit committee	Finance & Investment committee	Compensation & Nomination committee	Customer & Conduct committee
Paul Evans	Non-Executive Director – Chair		X	X		X	X
Christian Dinesen¹	Non-Executive Director		X	X		X	X
Denise Larnder	Non-Executive Director		X	X ⁸			X
Teresa Robson-Capps	Non-Executive Director		X	X		X ⁹	Chair
Andrew Torrance	Non-Executive Director		X	X	X	Chair	X
Christopher Townsend	Non-Executive Director						
Jose Vazquez	Non-Executive Director		Chair ¹⁰	X			X
Oliver Corbett²	Non-Executive Director		X	Chair ⁶		X	X
Ulf Lange³	Chief Financial Officer, AZH	X			X		
Colm Holmes	Chief Executive Officer, AZH	X			Chair		X
Stephen Treloar⁴	CEO Personal Lines	X			X		X
Simon McGinn⁵	CEO Commercial Lines	X			X		X
Fernley Dyson⁷	Chief Financial Officer, AZH	X			X		

Yellow lines in the table above indicate personnel that have resigned during 2023.

1 – Resigned from all committees with effect from 10 April 2023. Ceased as chair of Audit Committee on 6 April 2023.

2 – Appointed to all roles as 1 November 2023 except as Audit Committee chair (see note 6).

3 – Appointed to the Board and FICO with effect from 30 May 2023. Appointed to AZH Executive Committee on 1 May 2023.

4 – Resigned from all roles with effect from 30 June 2023.

5 – Resigned from all roles with effect from 30 April 2023.

6 – Oliver Corbett was appointed as Interim Chair of the Audit Committee from 1 December 2023 (subject to regulatory approval). Necessary regulatory notifications were submitted to temporarily to allow Denise Larnder to temporarily stand down from her role as Chair of the Audit Committee.

7 – Resigned from all roles with effect from 29 May 2023.

B. System of Governance continued

Potential conflicts of interest between the Company, its policyholders and other companies in the Group are regularly identified and managed. The processes in place to manage those conflicts include documented requirements for governance and appropriate independence. The Company's Board maintains and regularly reviews a register of the interests of the Directors.

The Customer & Conduct committee is responsible for oversight of material customer and conduct matters both current and emerging, including reviewing matters from a customer impact perspective and the implementation of the Consumer Duty regulation. The committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of AZH or by the Allianz SE Group. Membership of the committee during the year comprised an independent non-executive Director who acted as chair, at least three other members who were independent non-executive Directors and one of whom was the Risk committee chair. In addition, the Committee membership also included the CEO and three other independent non-executive Directors and one of whom was the Customer & Conduct Committee Chair.

The Risk committee is responsible for oversight of both current and emerging risks that the Company faces and also determining links between different risks. They are also responsible for the Enterprise Risk Management Framework within which the Company manages those risks. The Risk committee is also responsible for highlighting any risk issues that may require attention by the Company's Board, the Board of AZH or Allianz SE Group. Membership of the Risk committee comprises an independent non-executive Director who acts as chair and at least three other independent non-executive Directors.

The Audit committee is responsible for the oversight of policies and procedures relating to internal control and financial/regulatory reporting, to ensure the independence and effectiveness of internal and external audit functions and the integrity of financial and narrative statements for the Company. The Audit committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of AZH or by the Allianz SE Group. Membership of the Audit committee comprises an independent non-executive Director, who acts as chair, and at least two other members who must be independent non-executive Directors.

The Compensation & Nomination committee is responsible for oversight of all compensation and nomination matters relating to executives and employees of the Company and the Group. The Compensation & Nomination committee's responsibilities include oversight of the design, governance and operation of the Group's compensation system; identifying local risk takers and controlling their compensation according to applicable regulations; reviewing the size, structure, and composition of the Board; identifying non-executive Director candidates when vacancies arise; reviewing the leadership needs of the organisation; and reviewing gender pay gaps and diversity and inclusion matters. The Compensation & Nomination Committee is responsible for highlighting matters that may require attention by the Combined Board. Membership of the Compensation & Nomination Committee comprises an independent non-executive Director who acts as Chair and at least two other members who must be independent non-executive Directors. The Chair of the Risk Committee is invited annually to participate in the Committee's discussions around rewards reflecting risk taking and conduct issues. The Committee also reviews any Board performance evaluation process and recommendations.

The Finance & Investment committee has responsibility for oversight and management of the investment portfolios of the Group (including the Company's portfolio) and for overseeing their investment related risks. The committee also has responsibilities concerning, and reports by exception on, investment risk matters through risk reports to the Risk committee. In addition to its investment portfolio responsibilities, the committee's objectives include overseeing the planning and development of the Group asset allocation and investment income, overseeing the Group capital structure and liquidity position, and approving individual investment transactions with significant impact for companies within the Group. In 2023, membership of the committee comprises of the Group CEO as chair, the CFO who acts as Deputy chair, the Group Chief Investment Officer ("CIO"), the Regional CIO of Allianz Investment Management SE and an independent non-executive Director of the Company. Following year-end 2023, the membership of the Finance and Investment committee has changed and the committee is now a sub-committee of the AZH Executive committee.

The implementation of the Company's strategy is delegated by the Board to the Group's CEO who is supported in this by the AZH Executive committee and its sub-committees which consists of the accountable executives for the Group. A project to simplify the sub-committee governance structure was implemented during the year to support the Group CEO in effective implementation of the Group's strategy.

B. System of Governance continued

The AZH Executive committee meets at least 10 times each year. The members of the AZH Executive committee as at 31 December 2023 were:

- Chief Executive Officer, who will be the chair (“the chair”)
- Chief Financial Officer,
- Managing Director, Commercial
- Managing Director, Personal
- Managing Director, Specialty
- Chief People and Culture Officer
- Chief Operating Officer
- Chief Risk Officer
- Chief Compliance and Corporate Affairs Officer
- Chief Legal Officer and Company Secretary
- Chief Actuary
- Chief Audit Officer

The sub-committees of the AZH Executive committee comprise:

- Change and Investment committee
- Executive Conduct committee
- Executive Risk committee
- People committee
- Insurance committee
- Governance and Control committee
- Financial Reporting and Disclosure committee

Defined Roles and Responsibilities

The following four key functions required by Solvency II are each headed by the following individuals:

- Risk Function: John Berry – Chief Risk Officer
- Compliance Function: Alison Rayner - Chief Compliance and Corporate Affairs Officer (Margo Young – Chief Compliance Officer up to 14 February 2023)
- Actuarial Function: Laurence Townley – Chief Actuary
- Internal Audit Function: Matthew Cox – Chief Audit Officer

Key function authority, operational independence and resources are described in sections B.3 to B.6 of this report. All members of the Company’s Board and AZH Executive committee, the heads of the four key functions and certain other senior managers have been approved by the PRA and/or the FCA.

The Senior Managers and Certification Regime (“SM&CR”) sets out the prescribed responsibilities which must be allocated to specific individuals in insurance companies. The following table sets out which role within the Company is responsible for the execution of each specific responsibility.

B. System of Governance continued

Prescribed Responsibility	Allocation
Senior Managers Regime	SMF1 Chief Executive
Certification Regime	SMF1 Chief Executive
Conduct rules training and reporting	SMF1 Chief Executive
Responsibilities map	SMF2 Chief Compliance Officer
Anti-financial crime policies and controls	SMF1 Chief Executive
Obligations in Insurance for Fitness and Propriety	SMF9 Chair
Leading development of the firm's culture by the governing body as a whole	SMF9 Chair
Overseeing adoption of the firm's culture in the day-to-day management of the firm	SMF1 Chief Executive
Responsibility for production and integrity of firm's financial information and its regulatory reporting	SMF2 Chief Financial Officer
Management of the allocation and maintenance of the firm's a) capital and b) liquidity	SMF2 Chief Financial Officer
Responsibility for the performance of the firm's ORSA	SMF4 Chief Risk Officer
Induction, training and professional development of all members of the firm's governing body	SMF9 Chair
Induction, training and professional development of all the firm's SMF managers and Key Function Holders	SMF1 Chief Executive
Oversight of the independence, autonomy and effectiveness of Whistleblowing policies and procedures	SMF11 Chair of Audit committee
Development and implementation of remuneration policies and practices	SMF12 Chair of Remuneration committee
Obligations in respect of outsourced operational functions and activities	SMF1 Chief Executive
Development and maintenance of the firm's business model by the governing body	SMF1 Chief Executive

Solvency II legislation requires that the System of Governance be subject to regular internal review. The Group, including the Company, conducts this review annually. It is a consolidated cross-functional assessment of elements of the System of Governance through all relevant sources for evaluation. Entity level control assessment testing forms part of the review and is carried out by the Internal Audit department. Adequacy assessment of certain System of Governance elements, as selected by the Allianz SE Group, are also conducted.

B. System of Governance continued

The requirement to conduct the System of Governance review is reflected in the Group Governance and Control Policy. The System of Governance review is assessed by the Governance and Control Committee, which is a sub-committee of the AZH Executive Committee. The System of Governance review was also reviewed by the Risk Committee and AZH Board, ahead of a Statement of Accountability Attestation being completed by the CEO and CFO and returned to Allianz SE Group.

The System of Governance review for 2023 concluded that Allianz UK has in place a System of Governance that provides for sound and prudent management of the business. The following material and cross-functional observations for further improvement of the System of Governance, each with mitigation activities which have been planned and are in progress, have been identified and have been included in the Statement of Accountability provided to Allianz SE Group.

1. Information and document management – continue the implementation of information and document management enhancements to align fully with the Allianz Standard for Information and Document Management (“ASIDM”), in accordance with the agreed project plan. Target date for completion: Mid 2025.
2. Business performance monitoring and forecasting – noting the implementation of improvements to date, continue and embed enhancements to the processes for solvency forecasting by implementing the associated recommendation from the 2023 Risk Opinion on the 2024 – 2026 Business Plan. Target date for completion: 30 August 2024.
3. Risk Management – further improve the risk culture and control environment by implementing the recommendations from the December 2023 Risk lessons learnt review and carry out an external review of the embeddedness of the risk framework. Target date for completion: Q4 2024.
4. Operational Risk and Third Party Supplier Management – continue improvements and enhancements to the governance and risk management in relation to operational resilience and third party suppliers by completing the implementation of the findings from the operational resilience embedding programme and the project set up to ensure a consistent approach to third party risk management. Target date for completion: 31 December 2024.

The Company remuneration framework has been constructed to ensure that it is competitive and provides a balance of both fixed and variable pay but does not encourage excessive risk taking. The framework and the processes within it are reviewed by the Compensation & Nomination committee. The review also monitors the remuneration framework’s consistency with the Company’s identified risk appetite.

The Compensation & Nomination committee is responsible for the sign off of all remuneration decisions affecting the senior executive managers of the Company. This ensures impartiality of decision-making and ensures there are no conflicts of interest in respect of remuneration decisions and is guided by Group principles and requirements.

The remuneration of all employees comprises a combination of basic salary, appropriate benefits and a performance related bonus. In the case of some senior employees, the bonus is paid as a combination of cash and long-term equity incentives whose value is related to the price of Allianz SE shares. The performance related bonus is based upon a combination of group’s company performance against targets and personal performance against specific personal objectives. Personal objectives comprise both business and behavioural components which receive equal emphasis. The most senior managers complete a 360-degree feedback process to contribute to their assessment. There is also a standard compliance objective. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

Independent non-executive Directors receive fixed remuneration.

In this context “persons who exercise significant influence” are deemed equivalent to “People with Significant Control” as defined by the Companies Act 2006, together with the people with significant control over those people and so on to the ultimate group shareholder.

B.2 Fit and proper

The Company requires that all Directors and other senior managers possess integrity, good reputation, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement aligns to the requirements of the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”) within the UK regulatory SM&CR, and includes all managers identified as Key Function Holders and Key Function Performers. The individuals, with the support of their line managers, are responsible for ensuring that their skills, knowledge and experience remain adequate and kept up to date.

B. System of Governance continued

Processes are in place to assess the fitness and propriety of individual managers and Directors subject to the SM&CR prior to those persons joining the Company or assuming a relevant position. Thereafter, annually throughout their employment, a detailed attestation is required from the relevant individual. This includes declarations concerning:

- Criminal proceedings or investigations against them (or any firm over which they have held influence).
- Civil proceedings and bankruptcy orders or liquidation or similar proceedings against them (or any firm over which they have held influence).
- Disciplinary proceedings or findings against them.
- Regulatory proceedings or findings against them (or any firm over which they have held influence).
- Compliance with procedures concerning personal account dealings in Allianz SE and other securities.
- Potential or actual conflicts of interest.

B.3 Risk Management system including ORSA

Risk Management Framework

The design and operation of the Risk Management Framework is the responsibility of the Board, advised by the CRO. The Risk Management Framework encompasses all levels of the Company's management. The components of the system, described below, are embedded in the operations of the organisation.

The system is built around the Three Lines of Defence model:

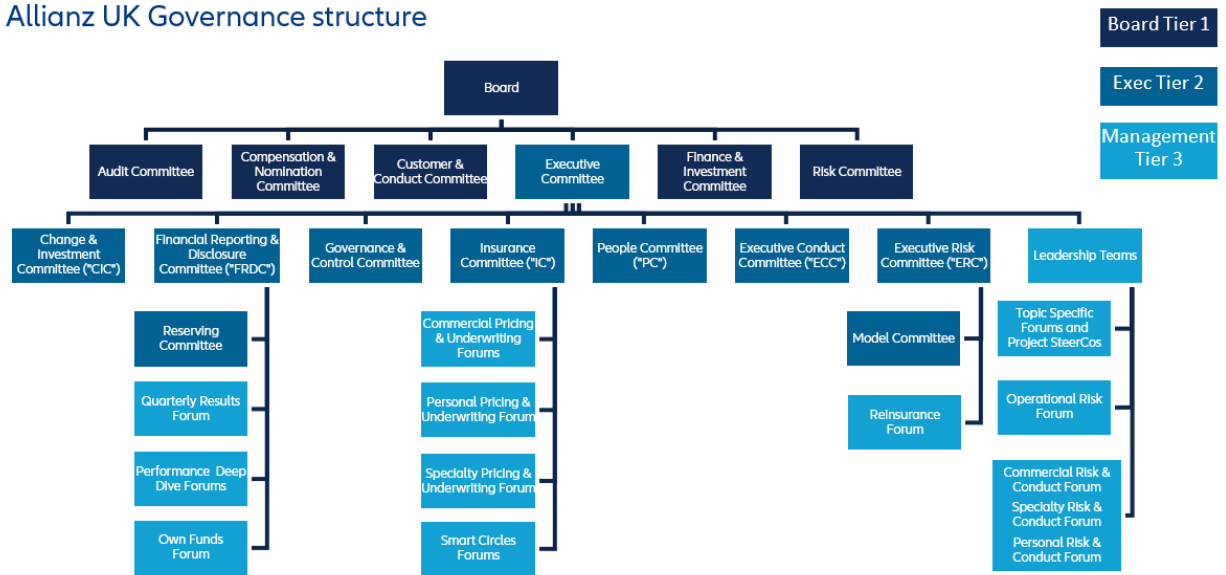
- The first-line of defence comprises risk taking units which are responsible for delivering profit or loss.
- The second-line comprises independent risk controlling units, including Risk and Compliance, which oversee the framework in which the business works, and validate risk and control information coming from the first line.
- The third-line of defence is the Internal Audit function, which reviews the activities of both first and second lines of defence.

The Board of Directors and Executive committee are responsible for setting the firm's strategy and risk appetite, with the support and challenge of the Risk function.

A comprehensive committee structure is in place to ensure that risks are considered at the appropriate level. The diagram below gives further details of the committee structure.

B. System of Governance continued

Allianz UK Governance structure



The Board identifies and prioritises all the material risks facing its business, supported by Risk committee, the Executive committee and its sub-committee, the Executive Risk committee ("ERC"), and the Risk function. After the risks have been identified, the ERC ensures that arrangements are put in place to control those risks. Risk and control policies are documented.

To ensure risk management is fully integrated into the business, and effective control is maintained, key risks and controls are owned by members of the ERC and other senior managers. As appropriate to their roles, the members of the ERC and senior managers assume first-line accountability for the identification and management of all risks in the organisation.

The main risks are kept under regular review by the Board via reports from the Risk function to the Risk committee. The Executive committee is supported in its oversight of risk by a number of sub-committees, including the ERC. The role and responsibilities of the CRO, the Executive committee and its sub-committees are laid down in relevant job descriptions or terms of reference.

The CRO is supported by a Risk function consisting of risk and actuarial professionals. It has responsibility for the calculation of risk capital, the development and monitoring of the implementation of risk policies, the identification and monitoring of risks, and the management testing of the key controls that mitigate risk.

The Risk function is independent of the first-line functions. Independence is prescribed by written policy and overseen by the Risk committee.

The risk taxonomy is split into three broad groups of risk types:

- 1) Modelled: Insurance, Market, Credit, Business and Operational.
- 2) Not modelled: Reputational, Liquidity, Strategic and Conduct.
- 3) Overarching risks: Aggregation and Accumulation, Conduct, Group and Emerging.

Modelled risks are quantified using the standard formula and recalculated in full each quarter. Risk tolerance limits are used to monitor quantifiable risks regularly. A number of qualitative risk assessment processes covering all risks are undertaken by the first-line of defence, with support, challenge and oversight from the Risk function. The results of these assessments are used to inform key business decisions and planning.

B. System of Governance continued

ORSA Process

The ORSA process forms a substantial part of the Risk Management Framework described above. The ORSA consists of a number of interlinked sub-processes, including but not limited to:

- Top risk assessments;
- Internal Risk and Control System within the non-financial risk management framework (“NFRM”);
- Stress and scenario testing;
- Capital and solvency assessments; and
- Corporate strategy and planning.

The Board is responsible for setting the business strategy and risk appetite. Business strategy is determined by the Board and its implementation in terms of types of business, business volumes, capital requirements, financial performance and other appropriate measures, is set out in the business plan. The business plan is prepared annually and outlines the goals in support of corporate strategy to be implemented by the Executive committee.

The risk strategy and appetite are set by the Board. The Company manages risk in line with the stated risk appetite through its Risk Management framework. This consists of ORSA processes, which identify, evaluate, treat, mitigate and monitor events or a combination of events, so that through an informed decision making process the likelihood and consequences of occurrence are within limits considered acceptable by the Board.

The ORSA covers the overall solvency needs from a forward-looking perspective, taking into account the Company risk profile, approved risk tolerance limits, the business strategy and the significance with which the company risk profile may deviate from the assumptions underlying the Standard Formula. The ORSA is an integral part of the development and monitoring of the business strategy and is considered on an ongoing basis in strategic decisions. Roles and responsibilities relating to the ORSA include the Board setting process requirements and challenging and approving the ORSA report.

The ORSA report is produced annually in alignment with the corporate planning process and is supported by quarterly updates to the Board Risk committee. The ORSA may also be updated following any event that materially changes the risk profile of the organisation.

A full non-regular ORSA process may be required after any event that could substantially alter the overall conclusions of the most recent (regular annual) ORSA report. The following potential trigger events have been identified:

- Large UK-based natural catastrophe events that have a significant impact on the Company risk portfolios.
- Major change in business situation e.g. merger, acquisition or divestiture activity which would require the Company to assess the impact on its current and projected solvency.
- Significant capital market dislocation that has a material impact on the Company investment portfolios
- Material regulatory intervention.
- Significant changes to the risk profile leading to a need to re-assess the appropriateness of the Standard Formula.
- Significant changes to reinsurance arrangements.
- Significant changes in regulation or legislation, e.g. material changes to capital requirements.
- Materialisation of a significant non-quantified risk (e.g. Strategic, Reputational, Liquidity or Conduct risk).

During 2023, the impact of inflation and global geo-political conflicts have remained key considerations as part of the ORSA process, with the Risk function being involved across the business in evaluating emerging risks.

The ORSA process is underpinned by individual accountabilities and processes undertaken by first-line managers across the organisation. These include but are not limited to, defined authority levels for claim handling and underwriting as well as limits on investment risk-taking.

B. System of Governance continued

The major sub-processes that contribute to the ORSA process are:

- The setting of risk strategy and appetite by the Board, on the advice of the Risk committee and CRO;
- The development of strategy and a business plan within the defined risk appetite;
- The approval of policies and standards in the management of risk by appropriate governance bodies and the monitoring of compliance with those policies and standards by the Risk function;
- A number of risk evaluation processes, including:
 - The maintenance of a top risk register, including a record of the controls around those risks.
 - The regular analysis of the impact of specific stress scenarios.
 - The maintenance of a register of key operational risks.
- Regular internal reporting on risk exposure and control to governance bodies inside the organisation; and
- Regular external reporting to regulators and to the public, as required by Solvency II and UK regulation.

The Company uses the Standard Formula to determine its solvency needs (refer to section C). The Standard Formula is used as the primary input for decisions on capital management (refer to section E). The CFO ensures that recommendations to the Board on capital management take account of risk management activities. The Company's policy on capital management is documented and approved by the Board. Dividends are planned through the Company's annual planning mechanisms taking into account liquidity, available distributable reserves and the Board's requirement to hold an appropriate buffer of capital over SCR and MCR. In addition to the Standard Formula regulatory capital model, the Company also maintains an economic capital model. This is used to set some aspects of risk appetite and as part of the Standard Formula appropriateness assessment.

The Company has received approval from the PRA for a modification to the relevant rules from the PRA rulebook so that it is allowed to perform a single ORSA report for the Company and HICO combined. This reflects the fact that the two businesses underwrite similar business and have a consistent management structure.

B.4 Internal control system

To ensure an effective internal control system, all functions cooperate to exchange necessary information and advice. Second-line and third-line functions maintain open lines of communication with first-line functions and attend key committees at all levels of the Company's governance structure.

With regard to the integrity of financial reporting, the Risk function oversees the operation of a process of internal control via the non-financial risk management ("NFRM") framework. Under the NFRM, controls relevant for financial reporting are tested by the first and second lines of defence and reported by the Risk function. Additional testing is also completed by Internal Audit and external auditors. Internal Audit tests the operating effectiveness of entity level controls. Senior managers across the organisation, led by the CFO and the CEO, are held accountable for the effective design and performance of processes within their span of control. The NFRM framework, including the reporting of risks outside of appetite, the reasons for this assessment and the remedial actions to bring them back into appetite, is monitored by the Risk Committee.

Compliance Function

Compliance is a key function within the internal control system of the Company. The function's primary responsibilities and activities are:

- To support and monitor compliance with applicable law, regulations and administrative provisions to protect the Company against compliance and conduct risks.
- To advise senior management, committees and the Board on compliance with laws, regulations and administrative provisions adopted pursuant to the Solvency II Directive.

The activities and processes of the Compliance function are not exclusively performed by Compliance and may be delegated to, or supported by, other departments, business areas, Internal Audit, Risk, and Actuarial, or external resources.

B. System of Governance continued

During the period of the report, the Compliance Department comprised a full-time team of Compliance professionals led by the Chief Compliance and Corporate Affairs Officer, who is a member of the Executive Committee. Compliance is a second-line function; independence of the function is ensured by written policy and by the oversight of the Customer and Conduct Committee. The Compliance Department produces an annual monitoring plan, in consultation with the Risk and Internal Audit functions, for approval by the Customer and Conduct Committee.

B.5 Internal audit

The Internal Audit function exists to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. Internal Audit has a Policy and Charter, approved annually by the Allianz Holdings plc Audit committee to document its mission, scope, independence, accountabilities, responsibilities, authorities and standards.

The Chief Audit Officer (“CAO”) reports functionally to the Chair of the Audit committee and administratively (i.e. day-to-day operations) to the AZH Chief Executive Officer. The CAO has unrestricted access to, and communicates and interacts directly with, the Executive committee and Audit committee, including in private meetings without management present. The CAO does not have any additional roles or responsibilities outside of internal auditing and all internal audit personnel report directly to the CAO.

Internal Audit prepares, at least annually, a risk-based internal audit plan to the Audit committee for review and approval. Senior management and second-line assurance functions are consulted during the preparation of the plan. Over the five year planning cycle, all applicable audit universe components and legal entities are expected to be audited, with exceptions identified to Audit committee for ratification.

The plan is reviewed and adjusted, as necessary, in response to changes in the Group’s business, risks, operations, programmes, systems, and controls. Plan performance, including the results of audits, completion of open audit findings and any significant interim changes to the internal audit plan are regularly communicated to senior management and the Audit committee.

B.6 Actuarial Function

Solvency II requires that each company has an Actuarial function to:

- Coordinate the calculation and validation of technical items under IFRS and Solvency II, including technical provisions calculations.
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions.
- Assess the sufficiency and quality of the data used in the calculation of technical provisions.
- Compare best estimates against experience.
- Inform the Board of the reliability and adequacy of the calculation of technical provisions.
- Express an opinion on the overall underwriting policy.
- Express an opinion on the adequacy of reinsurance arrangements.
- Contribute to the effective implementation of the risk- management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.
- Prepare an annual report on the actuarial function (Actuarial Function Report).
- Report the results of the reserve valuations to the Board and Group via the Audit committee.

The Actuarial function’s independence is supported by written policy. It recommends the level of Technical Provisions to the Financial Reporting and Disclosures committee. The work of the Actuarial function, and its independence, is overseen on behalf of the Board by the Audit committee.

The Actuarial function consists of the Chief Actuary who is supported by a team of actuarial professionals. The Chief Actuary holds an Institute & Faculty of Actuaries Chief Actuary Practising Certificate and is the approved SMF20 Chief Actuary Function Holder. The Actuarial function reports on compliance with the above requirements by producing an Actuarial Function Report.

B. System of Governance continued

B.7 Outsourcing

All outsourcing arrangements are entered into and managed in accordance with the requirements of the Outsourcing Policy (“the Policy”). The Policy is owned by the Head of Procurement and is approved by the Combined Board on an annual basis.

The Policy sets out a clear framework for making decisions on when to outsource, the requirements to contract with a service provider and the management of the outsourcing arrangement. Compliance with the Policy is overseen by the

Group outsourcing function, who, with the procurement team, also provide expert advice on setting up, managing and terminating outsourcing and other contracts. Suppliers are risk-assessed by Procurement at the point of initial engagement, and at intervals throughout the lifetime of the contract, drawing advice from key functions as and where required. Risks considered include cyber risk, information security risk, business continuity risk and data privacy risk. Critical or important function suppliers are managed closely ensuring that the appropriate monitoring and oversight is in place for these suppliers.

All requirements set out in the Policy also apply outsourcing to another Allianz SE Group company.

All Outsourcing arrangements are recorded on an Outsourcing Register. The Outsourcing Register records the rationale for outsourcing of each arrangement, the location of the outsource provider and confirmation that appropriate oversight is in place.

In 2023 the approach to oversight included the following controls:

- All Outsourcing arrangements must have a signed contract incorporating standard terms and conditions or specific terms which have been fully risk assessed.
- Financial health monitoring using an automated alerting system.
- Monitoring of third-party companies and directors against the HMRC Sanctions list.
- Where information is shared with third parties a series of questionnaires (relating to cyber risk, information security and data protection) are sent to each supplier prior to the commencement of their service and subsequently the risks are assessed against appetite.
- Privacy impact assessments are used to inform data protection.
- Due diligence is completed on all potential service providers to ensure they have the ability, capacity and authorisations required to meet the requirements of the business.
- On a quarterly basis a review is completed on each critical or important supplier. It reviews third parties’ internal controls as well as completion of activities relating to relationship management and oversight. This includes, but not limited to, details relating to Policy Compliance, Exit Planning, Business Continuity Planning, Supplier Capability, Performance Reviews and Conduct Risk. Summaries of information are provided to safeguarding functions and Business Owners for sign off prior to being submitted to the Operational Risk Forum and the Executive Risk committee for review.
- Creation of supplier service specific business continuity and exit plans, including provisions for management of cyber risk events.
- The table below outlines the critical or important functions or activities that at the end of 2023 the Company outsourced, and the jurisdiction in which the service providers are located.

B. System of Governance continued

Activity outsourced	Fellow member of the Allianz SE Group	Outsourcing Provider's Jurisdiction
Delegated authority to handle specific claims and/or underwriting of specific segments	N	United Kingdom
Handling of claims and/or provision of specific underwriting expertise	N	United Kingdom
Provision of document preparation, printing and distribution	N	United Kingdom
Information technology services including software, hosting, development and support of business services	Y Y N	Germany India United Kingdom
Information technology infrastructure	Y	Germany
Asset and Real Estate Management	Y N	United Kingdom United Kingdom
Business support services	Y N	India United Kingdom

The Company does not outsource any of the four key functions defined by Solvency II – Risk, Compliance, Actuarial and Internal Audit.

B.8 Additional information

The Company monitors the effectiveness and adequacy of its System of Governance, including the effectiveness of specific functions. As noted above, the annual review of the System of Governance for 2023, conducted in early 2024, concluded that there was in place a System of Governance that provides for sound and prudent management of the business. Certain matters arose in the course of 2023 which indicate further improvement is needed in the broader implementation and operation of the System of Governance to ensure its continued effectiveness. These matters have been identified through the operation of the System of Governance and effective improvement plans have been identified and either have already been implemented or are in the process of being implemented.

The Risk function is responsible, among other things, for assessing risks and monitoring risk capital. This also includes the ongoing assessment of risks resulting from global geo-political conflicts and high inflation rates. Financial impacts of potential adverse events on the Company's solvency position have been assessed and are closely monitored by quarterly stress and scenario analysis, reported to the Board Risk committee.

C. Risk Profile

This section is unaudited.

This section provides information on the Company's overall risk profile followed by a description of each risk category in detail.

Measurement of Risk

Risk is measured and steered using a number of quantitative and qualitative tools which allows management to identify the key areas of risk exposure and make informed decisions as to whether the current levels of exposure are consistent with risk appetite:

- The main quantitative tool is the Solvency II Standard Formula, under which the Company derives its risk capital from potential adverse developments of Own Funds. The resulting profile provides an overview of how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II.
- An analysis of change is performed on the regulatory capital requirements on a quarterly basis, looking at individual risks as well as the whole SCR.
- Capital and Own Funds are monitored on a regular basis and the results reported to Senior Management.
- Stress testing and sensitivity analysis for all material risks and events is performed quarterly for the Own Risk and Solvency Assessment and business planning exercises. Information on the Company's risk sensitivities, including a description of methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks is provided in section C.7.
- The Company uses a combination of processes, such as expert judgement and incident management, to identify, assess and control qualitative risks. Qualitative risks are regularly monitored by management to ensure that they do not materially impact on the operational activities necessary for the achievement of business plans.

Risk Exposures Overview

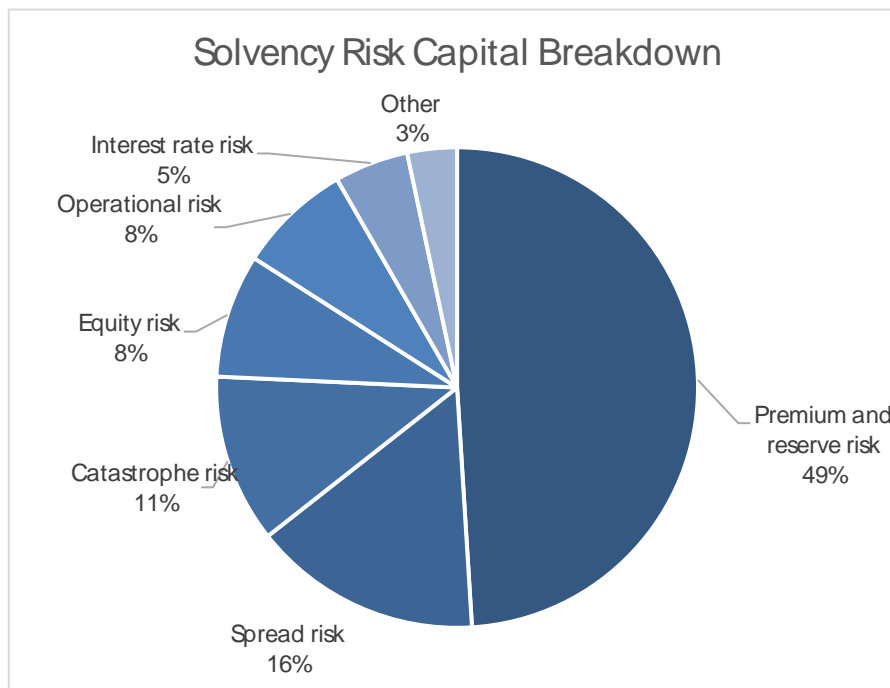
The Company insures only non-life insurance risks though it is also exposed to some life insurance risks through claims settlements as Periodic Payment Orders ("PPOs"). These make up a small proportion of the Company's overall claims. As a result of its asset management activities to support its primary business activities, the Company is also exposed to market and credit risks.

The Company does not use Special Purpose Vehicles to transfer risk and is not exposed to risk from positions off its balance sheet.

During 2023, there were no material changes in the methods used to assess risks.

The chart below shows the 2023 Year End composition of the Standard Formula Solvency Capital Requirement by risk type, before diversification between categories. The largest exposure, amounting to 49% of the SCR, relates to premium & reserve risk followed by spread risk at 16%, catastrophe risk at 11% and equity risk at 8%.

C. Risk Profile continued



Prudent Person Principle

The Company operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. All investment and strategic management decisions are set within Board approved risk appetite limits. The Company employs a CIO, who is supported by Allianz Investment Management. The Company invests with reference to a Strategic Asset Allocation ("SAA") which supports the long-term investment strategy of the Company where the objective is to maximise investment return subject to its risk appetite. All investment guidelines are approved by the CIO.

C.1 Underwriting risk

In determining the price of its insurance products and when reporting the financial results relating to these products, the Company makes a number of assumptions related to the future amount and timing of payments. Underwriting risk arises from the actual outcome being different to these assumptions.

Underwriting risk consists of:

- Premium risk and reserve risk for the insurance business and
- Business Risk

The key underwriting risk concentration for the Company is geographical. Almost all of its business is written in the UK so it is exposed to UK government decisions, such as the change in the Personal Injury Discount Rate. Nevertheless, its insurance portfolio is geographically dispersed across England, Scotland, Wales and Northern Ireland to help reduce concentration and potential impacts from a Natural Catastrophe risk perspective, and it displays significant diversity within its product set, as illustrated by the table in section A.2. The geographical diversification of the Company risk exposure has remained fairly stable over 2023.

C. Risk Profile continued

Reinsurance purchase is the main tool used to keep underwriting exposure within risk appetite. A range of reinsurance contracts are entered into, typically annually, across different lines of business mitigate peak risks including accumulation risks:

- Excess of loss programmes to limit the impact of individual losses.
- Catastrophe reinsurance, which covers total losses arising from an event across property lines, reduces catastrophe risk.
- A 40% Whole Account Quota Share programme which reduces the total premium risk, reserve risk and catastrophe risk.

Their continued effectiveness is overseen by the Reinsurance Forum, which is a sub-committee of the ERC.

The capital held for underwriting risk before diversification within this category or with other risk categories is £368m. More details can be found in section E.2.

Premium and reserve risk

As the Company is predominantly a Motor and Home writer, its underwriting risk capital is driven by premium and reserve risks, which under the Standard Formula are considered as a single risk category.

The Company receives premiums from its customers and provides insurance protection in return. Changes in profitability over time are measured based on combined ratios and their fluctuations. The Company faces the risk that underwriting profitability is less than expected because there are more claims than expected, or claims are higher in value than expected. This risk is referred to as premium risk.

The Company actively manages its premium risk. Reinsurance purchase is one of the main tools used to keep underwriting exposure within risk appetite. A range of reinsurance contracts are entered into, typically annually, across different lines of business to mitigate the losses arising from individual large losses and catastrophe events.

Furthermore, the Company holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are insufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated or average amounts paid per claim to settle these are higher than expected. This risk is referred to as reserve risk.

The Company monitors the development of reserves for insurance claims on a line of business level quarterly through a reserving exercise assessing the unpaid claims reserves both gross and net of reinsurance. In addition, it conducts annual reserve uncertainty analyses based on similar methods to those used for premium risk calculations.

The undiversified risk capital for premium and reserve as at 31 December 2023 was £297m.

Catastrophe risk

Catastrophe Risk is defined as the risk that losses from catastrophe events differ from expected. This could be due to a divergence from expectations in either the claim frequency and/or average claim severity. The Company writes Home business which is exposed to natural catastrophe events, primarily floods and windstorms. The risk of catastrophe losses is heavily mitigated by the use of a Catastrophe Excess of Loss reinsurance programme as well as the Quota Share programme.

The undiversified risk capital for catastrophe risk as at 31 December 2023 was £68m.

C. Risk Profile continued

Lapse risk

Lapse Risk is modelled explicitly within the Standard Formula and is the risk that profitable policies lapse over the one-year time horizon. The undiversified risk capital for lapse risk as at 31 December 2023 was £3m and after allowing for diversification against other risks it is of limited materiality in combination.

C.2 Market risk

Market Risk arises as part of the general investment performance and impact of discounting on liabilities.

The Company assesses its market risk exposure via quantitative and qualitative processes carried out by the Investment and Risk functions, including regular dialogue between the functions and formal reporting to the Finance & Investment committee and the Risk committee.

The guiding principle for the Company's investment risk management, covering market risk, credit risk and liquidity risk, is the Prudent Person Principle. The Company only invests in assets it can properly identify, measure, monitor, manage, control, report and appropriately integrate in its solvency assessment. The table in section A.3 provides information on the investment portfolio as at 31 December 2023.

The SAA is the main mechanism used to mitigate investment risk. It covers both the target value of assets in each asset classes and the matching of duration between the asset and liability portfolios. Compliance with the SAA is monitored by the Risk function and by the Risk committee with support from the Finance & Investment committee. When specifying the SAA, care is taken to ensure an adequate level of asset quality and security which provides a sustainable return, as well as sufficient liquidity.

Concentrations in any one company or industry are limited by investment policy.

The capital held for market risk before diversification within this category or with other risk categories is £174m. The main driver is spread risk.

The main movements in the market risk capital over 2023 were driven by the change in interest rates which had an impact on both assets and liabilities of the Company. More details can be found in section E.2.

Interest rate risk

Movements in interest rates can cause the value of the Company's investments to move adversely relative to its technical provisions which are discounted on the Solvency II balance sheet. Exposure to this risk is mitigated substantially by undertaking asset-liability matching exercises, to consider the liability duration when setting a target asset duration as part of the SAA. The undiversified risk capital for interest rate risk as at 31 December 2023 was £30m.

Credit spread risk

Credit spread is the difference in yield between two assets of similar maturity but different credit quality.

The Company is directly exposed to credit spread risk through its investments in fixed income assets – such as bonds. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio by monitoring the credit ratings and large exposures in the portfolio, in conjunction with stress testing to assess the sensitivity of credit spread risk to movements in spreads.

The undiversified spread risk as at 31 December 2023 was £93m.

C. Risk Profile continued

Equity risk

The equity risk exposure relates to the strategic equity holding of the Highway Insurance Company and LV Repair Services (“LVRS”) subsidiaries. The undiversified risk capital for equity as at 31 December 2023 was £50m.

Inflation Risk

Throughout 2023, inflation has brought material uncertainty to current and future performance, driven by supply chain issues and materials shortages, rising energy costs, claims inflation costs and increased general expenses. The cost of living continues to be challenging for UK Homes. Whilst Consumer Price Inflation (“CPI”) has fallen during 2023, it remains above the Government’s target level and claims inflation remains higher than CPI. This challenge is expected to continue in 2024 and the Company will continue to react accordingly to prevailing macro-economic conditions.

C.3 Credit risk

Counterparty default risk arises from the holding of certain investment assets, reinsuring risks to third parties, and from normal trade credit such as brokers and premium finance. The risk to the Company is that a counterparty defaults on its obligations or fails to meet them in a timely manner.

The only material concentration of counterparty default risk is in respect of fellow Allianz SE Group companies. The Company’s current reinsurance programme is placed with Allianz Re Dublin for all risks. In respect of reinsurance, the credit rating of Allianz Re Dublin is such that an impact on the company would only be experienced following a very significant global market or insurance risk event impacting Allianz Re Dublin or its ultimate parent company Allianz SE.

The Company uses a variety of measures to limit any excess concentrations in credit risk, such as investing in a range of assets governed by investment mandates and asset counterparty limits as well as managing counterparty risk through risk limits on exposure and concentration.

The risk capital before diversification with other risk categories allocated to credit risk amounts to £15m.

C.4 Liquidity Risk

Liquidity risk is the risk that requirements for current or future payment obligations cannot be met. Liquidity risk is not modelled within the Standard Formula SCR because capital is not an appropriate mitigant. Instead, the Company closely monitors liquidity risk on a quarterly basis through scenarios.

The nature of the Company’s core business limits its exposure to liquidity risk, to the extent that it has negligible residual risk in normal circumstances.

Premiums are received well in advance of liabilities and most assets are traded in deeply liquid markets so that funds are available from the selling of these without a material discount except in the most extreme situations.

The Company monitors the liquidity position under stressed scenarios, including major claim events and extreme reductions in market liquidity, to ensure that should large amounts of liquidity be required at short notice adequate liquidity would be available. Even in the most extreme modelled situation, the Company liquidity remains that it is able to meet its ongoing liquidity requirements.

There have been no material changes in exposure to liquidity risk over the reporting period and the Company has no major concentrations which affect its liquidity risk. Any large cash transfers are managed closely by the Accounting functions in conjunction with the CIO.

C. Risk Profile continued

C.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, or from external factors other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The risk capital before diversification with other risk categories allocated to operational risk as at 31 December 2023 amounts to £46m.

The Company's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

The main operational risks identified are those related to information security, provision of IT services and political risk associated with regulatory change; these are included on the top risk assessment reviewed by the Risk committee for the Board. The main concentration of operational risk relates to the provision of services by an intra-group third party Company.

The key mitigants around operational risk are the development and maintenance of controls to address the risks, this is documented in a risk catalogue which is reviewed annually to ensure appropriate mitigation is in place for identified risks. First-line governance forums undertake monitoring of operational risks, including reviewing operational losses and key control failings on a quarterly basis. Operational risks are assessed as per the NFRM and an annual plan is produced with progress against this plan reported to the Operational Risk Forum.

Concentration of internal operational risks, in so far as it exists in relation to business continuity, compliance and outsourcing risks, is monitored and managed through second-line and first-line review and oversight. In addition, the Internal Audit function assesses the effectiveness of the internal control system through planned reviews of business activities.

C.6 Other material risks

Strategic risk

Strategic risk is defined as negative effects on capital and earnings due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Strategic risks are mitigated by the review of strategies and plans by the Board and Allianz SE.

Reputational risk

Reputational risk is the risk of an unexpected negative change in the Company's value as a result of a decline in the reputation of the Company in the eyes of its customers, regulators or staff. The Company has limited tolerance for reputational risk, and will seek to avoid and protect against all material reputational risk as far as possible. Reputational risks are mitigated by the implementation of policies for external and internal communication and by active management of the relationships between the Company and its regulators. Reputational risks are regularly evaluated by the Risk function and the Corporate Communications team.

Conduct risk

Conduct risk is defined as the risk that inappropriate decisions, actions, and/or processes impact the ability to achieve good customer outcomes. Conduct risk considerations arise for all business activities and risk categories. Conduct risk is mitigated by internal processes and is reinforced by thorough training and communication programmes. It is evaluated and analysed by the first line of defence with oversight from the Compliance department.

C. Risk Profile continued

Climate change

Climate change risk refers to climate change resulting in volatile weather patterns. These volatile weather patterns could have a material impact on Company's claims experience as extreme weather events such as flooding, droughts, storms and heat waves become more frequent and more severe. Physical and Transitional risks arising from climate change continue to be key areas of focus for the Company and these are managed through our risk management framework.

The main risk drivers of climate change risk exposure for the Company relate to the transitional and physical risks associated with climate change in the underwriting portfolios as well as the legal and regulatory implications of a transition to a net-zero carbon economy. The Company seeks to minimise the material downside risks related to climate change while adapting the business to transition to a net-zero carbon economy. These are managed through our risk management framework.

C.7 Any Other Information

Risk sensitivity analysis

To adequately understand its risk exposures, the Company uses stress testing and sensitivity analysis for all material risks and events.

These stresses are used to identify the most material impacts to the Company and then feed into investment decisions and underwriting activities as well as areas of focus for monitoring.

It is also periodically used to perform investigations into specific real-world scenarios of relevance to the Company, across all risk types and also to undertake regular analyses of one-factor stresses. This analysis covers both the direct impact on the balance sheet and secondary impacts on Solvency. All these analyses are reported to the Risk committee and are also used as input into decisions about capital requirements.

As at 31 December 2023, the Company's solvency ratio (that is, the percentage coverage of the SCR by Own Funds) was 137%. The table below shows the results of the sensitivity analysis for one-factor stresses, covering both market and non-market risks. The results include the impact on Own Funds and on the Company's solvency ratio.

The results represent the estimated direct quantitative impact of the stresses and do not consider future management actions that could potentially alleviate the situation. Examples of possible recovery options that the Company's management could decide to action following a stress include changing the investment portfolio to address market or credit risk, requesting capital from Allianz SE, altering the business portfolio and changing reinsurance arrangements.

The results are reasonable given the strategy and business of the Company.

C. Risk Profile continued

	Impact on Own Funds (£m)	Impact on Solvency ratio
Market risk		
Interest Rates: 100bps increase	(21)	(5%)
Interest Rates: 100bps decrease	20	5%
Credit Spreads: 100bps increase relative to swaps	(62)	(14%)
Credit Spreads: 100bps decrease relative to swaps	67	15%
Inflation: 100bps increase	(25)	(6%)
Inflation: 100bps decrease	22	5%
Non-market risk		
Premium risk: 1 in 5 year event	(53)	(12%)
Reserve risk: 1 in 5 year event	(46)	(11%)

In addition to the one-factor stresses presented above, the Company performs a regular assessment of how its solvency position could be affected in a range of adverse real-world economic scenarios, as part of the quarterly risk reporting to the Risk committee.

D. Valuation for Solvency Purposes

The scope of this section of the report is to represent the excess of assets over liabilities of the Company.

For Solvency II valuation purposes, assets and other liabilities are valued consistently with IFRS provided that IFRS valuation methods are consistent with Article 75 of Directive 2009/138. Assets and liabilities represent the fair value amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The table below shows the IFRS Statement of Financial Position of the Company as at 31 December 2023 and the key reclassifications and valuation differences between that and the balance sheet used for solvency purposes.

	IFRS Statement of Financial Position (£m)	Reclassifications (£m)	Valuation Difference (£m)	Solvency II Balance Sheet (£m)
Assets				
Goodwill	16	–	(16)	–
Intangible assets	1	–	(1)	–
Deferred tax asset	88	(77)	27	38
Holdings in related undertakings, including participations	199	–	25	224
Government bonds	560	–	–	560
Corporate bonds	1,075	–	–	1,075
Securitised bonds	38	–	–	38
Collective investment undertakings	37	5	–	42
Loans and mortgages	73	–	(1)	72
Reinsurance recoverables from Non-life excluding health	146	680	(82)	744
Reinsurance recoverables from Health similar to non-life	–	–	1	1
Reinsurance recoverables from Life excluding health and index-linked and unit-linked	50	–	(6)	44
Insurance and intermediaries receivables	387	–	(374)	13
Reinsurance receivables	18	(18)	–	–
Receivables (Trade, not insurance)	17	–	–	17
Cash and cash equivalents	45	(5)	–	40
Any other assets, not elsewhere shown	2	–	–	2
TOTAL ASSETS	2,752	585	(427)	2,910

D. Valuation for Solvency Purposes continued

	IFRS Statement of Financial Position (£m)	Reclassifications (£m)	Valuation Difference (£m)	Solvency II Balance Sheet (£m)
Liabilities				
Best Estimate – non-life	1,828	–	(354)	1,474
Risk Margin – non-life	12	–	13	25
Best Estimate - health	–	–	3	3
Best Estimate – life	41	–	14	55
Risk Margin – life	–	–	–	–
Deposits from reinsurers	10	663	12	685
Deferred tax liabilities	77	(77)	–	–
Insurance and intermediaries payables	46	–	(41)	5
Reinsurance payables	20	(1)	(19)	–
Payables (trade, not insurance)	60	–	–	60
Any other liabilities, not elsewhere shown	6	–	–	6
TOTAL LIABILITIES	2,100	585	(372)	2,313
Excess of assets over liabilities	652	–	(55)	597

D.1 Assets

Goodwill and intangible assets

For Solvency II valuation purposes, these are valued at £nil.

Participations

Participations are valued using the adjusted equity method, that is, at their IFRS Net Asset Value, adjusted for Solvency II valuation differences. For non-insurance undertakings, the equity valuation method was used with a deduction for the value of goodwill or other intangible assets that would be valued at zero.

Insurance and intermediaries receivables

Receivables have been reported in the Solvency II balance sheet at the value included under IFRS accounts. This is deemed market consistent given that the receivables are due within 12 months and therefore the discounting effect of the time value of money is not deemed significant.

In the case of insurance-related receivables, the difference between IFRS and Solvency II balance sheet mainly relates to the recognition of certain premiums that are included in the receivables under IFRS, while they are recognised within technical provisions in the Solvency II balance sheet, because such premiums are not yet due by the balance sheet date.

Loans

Loans have been included in the Solvency II balance sheet at their market value. The Company has two intercompany loans with fellow Group Companies, Liverpool Victoria Insurance Management (“LVIM”) and FIL.

The LVIM intercompany loan is repayable in equal annual instalment of £15.8m over 4 years, up to 31 December 2024. The loan carries interest at 3% per annum and is guaranteed by Allianz SE. The loan is valued in the Solvency II balance sheet using a discounted cash flow model and the fair value at 31 December 2023 was £15.4m.

D. Valuation for Solvency Purposes continued

The FIL loan of £29.2m is repayable by 30 June 2024 as the final repayment date. The loan carries interest at 3% per annum and there is no guarantee. The fair value at 31 December 2023 was £28.9m.

Investments

Where there are quoted prices in active markets for identical assets, these assets are classified as “Level 1”. Investments classified as Level 1 are reported in the Solvency II balance sheet at the value included in the IFRS accounts.

Where there are inputs other than quoted prices that are observable either directly or indirectly these assets are classified as “Level 2”. According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according to Solvency II rules, therefore no adjustment has been made to the value included in the IFRS accounts.

Where inputs that are not based on observable market data are used, these assets are classified as “Level 3”. Investments classified as Level 3 are valued using an income approach for both IFRS and Solvency II balance sheets and are covered in section D.4 Alternative Valuation Methods.

The split of investment classifications is provided in the table below.

	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Government bonds	245	315	-	560
Corporate bonds	4	1,071	-	1,075
Securitised bonds	-	38	-	38
Collective investment undertakings	-	-	43	43
Total	249	1,424	43	1,716

Cash & Cash equivalents

For cash and cash equivalents is no material difference in valuation between the Solvency II balance sheet and the IFRS accounts.

For all material classes of assets there have been no changes to the recognition or valuation basis in the year.

Assumptions and judgements that affect the reported amounts of assets are disclosed in the Company Annual Report and Financial Statements.

Deferred tax asset

Deferred taxes, except deferred tax assets arising from the carry forward of unused tax losses, are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised and valued for tax purposes. The valuation difference relating to deferred taxes mainly results from differences in technical provisions and insurance receivables for Solvency II.

D. Valuation for Solvency Purposes continued

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in International Accounting Standards (“IAS”) 12 are assessed, and any deferred tax asset or liability is adjusted or set up as required. The methods used to value deferred tax assets and/or liabilities under IAS 12 are disclosed in the Company Annual Report and Financial Statements.

The tax rates used in the calculation are the applicable UK tax rates. For losses this is a rate based on the applicable rate at the time the deferred tax items are expected to reverse. Deferred tax on all other items is calculated at the rate that was in force on the reporting date.

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19.0% to 25.0% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021.

The Solvency II to IFRS valuation differences, their applicable tax rate and the deferred tax impact are outlined below.

	Valuation differences before deferred tax (£m)	Tax rate applied	Deferred tax impact (£m)	Net differences between IFRS and SII (£m)
Goodwill	(16)	25%	4	(12)
Intangible assets	(1)	0%	–	(1)
Holdings in related undertakings, including participations	(25)	0%	–	(25)
Loans and mortgages	(1)	25%	–	(1)
Reinsurance recoverables from non-life excluding health	(82)	25%	20	(62)
Reinsurance recoverables from health	1	25%	–	1
Reinsurance recoverables from life	(6)	25%	2	(4)
Technical provisions– Best Estimate – non-life	355	25%	(89)	266
Technical provisions– Risk Margin – non-life	(13)	25%	3	(10)
Technical provisions– Best Estimate – Health	(3)	25%	1	(2)
Technical provisions– Best estimate – life	(14)	25%	4	(10)
Technical provisions– Risk Margin – life	–	25%	–	–
Insurance and intermediaries receivables	(374)	25%	94	(280)
Insurance and intermediaries payables	41	25%	(10)	31
Reinsurance payables	19	25%	(5)	14
Deposits from reinsurers	(13)	25%	3	(10)

D. Valuation for Solvency Purposes continued

Any other assets, not elsewhere shown

For Solvency II valuation purposes, prepayments and accrued income are valued consistently with IFRS. On the Solvency II balance sheet, the accrued interest on bonds is included in the market value of Investments. Under IFRS, prepayments and accrued income balances are all due within one year. These are valued at fair value based on amounts receivable on demand.

D.2 Technical Provisions

The table below shows the technical provisions both gross and net of reinsurance by Solvency II line of business.

LVIC - SII line of business	Gross (£m)				Net (£m)			
	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision
Motor vehicle liability insurance	973	210	20	1,203	517	94	20	631
Other Motor insurance	(110)	142	1	33	(66)	68	1	3
Fire and other damage to property insurance	171	66	4	241	90	26	4	120
General liability insurance	14	1	–	15	8	–	–	8
Legal expenses insurance	4	(4)	–	–	3	(9)	–	(6)
Assistance	2	5	–	7	1	(2)	–	(1)
Medical Expenses	1	2	–	3	1	1	–	2
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	55	–	–	55	11	–	–	11
Total	1,110	422	25	1,557	565	178	25	768

Technical provisions are calculated in respect of all insurance obligations to policyholders.

The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Each element is calculated by line of business, both gross of reinsurance and for associated reinsurance recoveries. For each line of business, the approach taken is the same, and the methods and assumptions used for each line of business are based on the actual exposure and experience of that line of business.

Methods and main assumptions

The calculation of the technical provisions is based on up-to-date and credible information and realistic assumptions and is performed using actuarial and statistical methods relevant to the line of business.

D. Valuation for Solvency Purposes continued

Claims provision

The claims provision is based on the undiscounted IFRS claims reserves, with the addition of an allowance for future claims handling and investment management expenses. A payment pattern derived from historical data for each line of business is applied to each element of the claims provision to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements. A final adjustment is made as described below in respect of future premiums.

Premium provision

To calculate the premium provision, the IFRS Liability for Remaining Coverage (“LRC”), adjusted to allow for future premium development arising from mid-term adjustments or cancellations and premiums relating to business written but not incepted, is used as an exposure measure.

Future loss ratio assumptions, derived separately for each line of business, are applied to the adjusted LRC to obtain an estimate of future claims. Allowances are also made for future expenses, profit commission and levies. A payment pattern is applied to each element of the premium provision to obtain future cash flows, which are discounted in line with Solvency II requirements.

The LRC is adjusted for future premium development and future premiums relating to business written but not incepted and is discounted. Reinsurance payables or receivables relating to business that has already been earned are included within the claims provision. Future premiums for the unearned and written but not incepted business are assigned to the premium provision.

On a net basis, there is the impact of the Whole Account Quota Share ceded funds which reduces claims but there is no corresponding Whole Account Quota Share premium as no premium is paid on the Quota Share. Therefore, the net premium provision is lower than the gross premium provision. This is purely presentational from an Own Funds perspective, as there is an equal and opposite adjustment outside of the technical provisions on the Market Value Balance Sheet.

Risk Margin

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance obligations over their lifetime.

Our approach to estimating future SCRs is based on the current SCR as a proportion of best estimate provisions, adjusted to reflect the increased levels of risk inherent in the claims reserves over time. It uses ratios to assess premium risk and reserve risk capital throughout the runoff period and grossing up factors to scale up for other risks.

This approach is based on the following assumptions:

- The current ratios of reserve risk capital to net reserves by line of business will increase over the run-off of personal lines due to loss of diversification.
- The run-off profile of risks such as Lapse, Broker Default, Catastrophe (“CAT”), and Health assume a one-year run-off pattern.
- The risk margin is held to cover run-off of an ongoing entity, which benefits from its existing diversification between reserve risk and premium risk.

The cost of capital rate used in the calculation of the risk margin is set by the PRA. Reforms introduced in Q4 2023 resulted in a reduction in the cost of capital rate used in the calculation of the risk margin from 6% to 4%. Alongside this, a risk tapering factor has been introduced for non-life obligations, which reduces their contribution to the risk margin. For LVIC, this tapering only applies to Settled and Potential PPOs.

D. Valuation for Solvency Purposes continued

Uncertainty

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. Uncertainty around the level of claims can arise from a number of sources, including, but not limited to:

- Claim reporting patterns being different from those expected.
- Claims settlement amounts being different in aggregate to that expected, for example, as a result of higher levels of inflation.
- The impact of a future change in Ogden discount rate.
- Reinsurance recoveries being different to the levels expected.
- Claim handling costs being different from those expected.

The calculation of the technical provisions requires a number of assumptions in addition to those supporting the IFRS calculations. Key additional assumptions include:

- Future loss ratio assumptions drive the allowance for future claims within the best estimate premium provision.
- Future expense assumptions are required for claims management expenses, future policy administrative expenses and future investment management expenses as well as future reinsurance costs (net of future recoveries) and levies.
- Future cash-flow assumptions are used for the discounting calculation.

Sensitivity analysis has been conducted to understand how the technical provisions react to changes in key assumptions. The results are shown below:

Sensitivity	Change in net technical provisions (£m)	% Change in net technical provisions
Increase future loss ratios by 2%	68	8.8%
Decrease future loss ratios by 2%	(68)	(8.8%)
Increase risk yield by 1%	(16)	(2.0%)
Decrease risk yield by 1%	18	2.3%

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, which are very sensitive to the assumptions made. Inflation has started to reduce during the latter part of 2023, with the latest CPI announcement highlighting a material year-on-year drop in inflation to 4.0%. However there remain concerns that claims inflation will lag CPI and therefore that excess inflation will continue for longer than anticipated, or that the underlying levels of inflation are not fully captured implicitly within claims data. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims.

A revision to the Ogden Discount Rate is expected in late 2024. Any anticipated change in the rate is highly uncertain, as it will depend on the economic environment at the point of review and there remains the possibility of the introduction of a dual rate mechanism. There is no explicit allowance for a potential Ogden Discount Rate change, either in the best estimate reserves or in the ENIDs allowance. Given there is significant uncertainty around the future rate, in particular due to the potential for a dual rate or other adjustments, it is not considered appropriate to allow for any potential benefit at this time.

Events Not In Data (“ENID”)

ENIDs are derived by using a scenario approach, with estimated probabilities and severities for each scenario used to calculate an explicit load for unexpected claims or claim deteriorations. The ENIDs are allocated to line of business and are derived on both a Claims Provisions (i.e. earned) and Premium Provisions (i.e. unearned) basis. ENIDs are calculated on an undiscounted basis and are also included within the IFRS best estimate. ENID scenarios are calculated both gross and net of reinsurance.

D. Valuation for Solvency Purposes continued

Differences in valuation methodologies

The Solvency II Best Estimate Liabilities (“BEL”) is based upon the IFRS Actuarial Best Estimate (“ABE”). However, elements of the ABE which are required under IFRS are not required under Solvency II and vice versa. Broadly, these can be summarised as follows:

- IFRS reserves held on the balance sheet are discounted based on current rates. The current rate is equal to the risk-free rate, plus the addition of an illiquidity adjuster. The illiquidity adjuster is set to zero for the LRC. The Solvency II BEL is instead discounted based on the latest PRA risk-free curve.
- Under IFRS, the profitability of each Group of Contracts is assessed to determine whether they are Onerous contracts. If at the date of initial recognition or at any time during the coverage period facts and circumstances indicates that a Group of Contracts is onerous, then a Loss Component is determined. There is no Loss Component within the Solvency II BEL, and instead the profitability of the underlying contracts is inherently captured within the projected future cashflows.
- IFRS includes a risk adjustment, which is the compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. In the Solvency II BEL, this is replaced by the Risk Margin.
- The LRC is inadmissible under Solvency II. However, this is replaced by the premium provision, which includes future premiums and expenses on unearned business.

Matching and volatility adjustments

No matching adjustment or volatility adjustment is applied to the risk-free yield curve used to discount the technical provisions.

Reinsurance recoverables

Reinsurance recoverables are calculated separately for the claims provision and premium provision. The following cash flows are taken into account:

Cash inflows:

- Recoverables from reinsurance contracts for claims payments and related expenses.

Cash outflows:

- Future premiums for reinsurance contracts.
- Counterparty default adjustment.

For the main lines of business, the Company purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows. A Loss Portfolio Transfer is in place with 40% of reserves on 2020 and prior accident periods ceded to Allianz Reinsurance Dublin (“AZRe”), whilst Whole Account Quota Share arrangements with 40% ceded to AZ Re have been in place annually since 2021.

For the claims provision, reinsurance recoveries for outstanding claims are calculated on a case-by-case basis. Incurred but not reported provisions for outstanding claims are estimated at both gross and net levels separately.

D. Valuation for Solvency Purposes continued

For the premium provision, a reinsurance to gross ratio is applied to future gross claims within the premium provision to derive the reinsurance recoverable. The net LRC is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities. This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on 1 January 2024. This is based on an assumed management action to renew the reinsurance programme at the next renewal date under terms and conditions similar to those which currently apply. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

Reinsurance future premiums are included within the technical provisions based on the payment terms of the individual reinsurance contracts. In respect of the Whole Account Quota Share contract with AZRe, the assumed management action continues to be that this cover remains in place throughout the run-off of the liabilities. Allowance is made for the expected future cash flows arising from this arrangement.

A counterparty default adjustment is held to reflect the expected amount of losses due to default of reinsurance counterparties. Note that there is no counterparty default adjustment required in respect of the Whole Account contracts, since these are on a funds withheld basis.

IFRS to Solvency II Technical Provisions

The following table shows a breakdown of the differences between IFRS provisions (net of reinsurance) and Solvency II technical provisions by Solvency II line of business.

The first column shows the IFRS technical provisions net of reinsurance. The final column shows the Solvency II net technical provisions including the risk margin.

The most significant adjustments are in respect of future premiums and exposures, which reflects the removal of the LRC and the inclusion of the Premium Provision. The SII balance sheet brings future (non-overdue and non-reinstatement premium) premium cashflows into the liability calculation. Under IFRS17, these sit elsewhere on the balance sheet.

There is a discount adjustment required when moving between the two bases, as current rates used to discount the IFRS reserves in the Liability for Incurred Claims ("LIC") include an illiquidity adjuster, whilst the Solvency II BEL is discounted using the latest PRA yield curve.

Other adjustments relate to the inclusion of Motor Insurance Bureau ("MIB") levies and outstanding reinsurance payments held within the Claims Provision. For simplicity, these are allocated to the Motor Vehicle Liability SII Line of Business.

The IFRS risk adjustment is replaced by the Solvency II risk margin.

D. Valuation for Solvency Purposes continued

SII line of business	IFRS provisions (£m)	Adjustment in respect of future premiums and exposures (£m)	Discounting adjustment (£m)	Replace risk adjustment with risk margin (£m)	Other adjustments (£m)	SII technical provisions (£m)
Motor vehicle liability insurance	728	(118)	4	5	12	631
Other Motor insurance	58	(60)	–	4	1	3
Fire and other damage to property insurance	182	(64)	–	3	(1)	120
General liability insurance	9	(1)	–	–	–	8
Legal expenses insurance	11	(17)	–	–	–	(6)
Assistance	14	(15)	–	–	–	(1)
Medical Expenses	2	–	–	–	–	2
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	9	–	1	1	–	11
Total	1,013	(275)	5	13	12	768

Material changes in the relevant assumptions made in the calculation of the technical provisions:

	Gross (£m)			Net (£m)		
	2023	2022	Change	2023	2022	Change
Best estimate	1,532	1,312	220	743	547	196
Risk Margin	25	32	(7)	25	32	(7)
SII Technical Provisions	1,557	1,344	213	768	579	189

The table above shows the change in the technical provisions from 2022 to 2023, both gross and net of reinsurance.

Overall, the net technical provisions have increased by £189m over the year.

The Claims Provision increased by £140m over the year, the main reasons being:

- An increase in undiscounted reserves due to underlying performance and inflationary pressures on current year claims, as well as an increase in the expected cost of the December 2022 freeze event.
- A fall in yields, reducing the level of discount benefit.
- There was a £68m reinsurance debtor held within the 2022 year-end technical provisions, in respect of the commutation of the previous whole account reinsurance arrangements with Swiss Re, which were commuted on 31st December 2022. The settlement of this debtor increased the net technical provisions by the equivalent amount.

There was a £55m increase in the Premium Provision over the year, primarily driven by the annual assumptions refresh. This was due to updating for the latest business plan which allowed for a higher level of expenses and following a review of the Quota Share Reinsurance Commission assumption.

D. Valuation for Solvency Purposes continued

The risk margin has decreased by £7m in the year. Although the underlying risk margin increased due to an increase in underlying reserves and a fall in yields, the risk margin has decreased due to the reduction in cost of capital from 6% to 4%.

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption.

Simplifications

The calculation of the technical provisions is carried out using materially appropriate, complete, and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. The limitations of the calculation methodology are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all important characteristics of the business. The assumptions and parameters used in each method are clear and explicitly identified. The key drivers and uncertainties associated with the best estimate are explored and described.

For some elements of the technical provisions, simplified methods are applied that are appropriate to the nature and complexity of the risks. These are outlined below.

For the premium provision, the recoverables on Motor excess of loss reinsurance are estimated by applying a reinsurance to gross ratio to the future gross claim cashflows. The stochastic Incurred But Not Received ("IBNR") model used in the claims provision calculation produces a gross and reinsurance provision from which the reinsurance to gross ratio used in the premium provision is derived. This is defined as a simplified method under Solvency II.

The risk margin is estimated using an adjusted proportional proxy method to project future SCRs. It uses ratios to assess premium risk and reserve risk capital throughout the runoff period allowing for the changing nature of the liabilities through the run off period and grossing up to allow for other risks, adjusted to reflect the changing levels of riskiness of the claims reserves over time. This method is defined by Solvency II regulation as a simplification.

D.3 Other liabilities

Differences between the IFRS and Solvency II balance sheet relating to the valuations of deposits from reinsurers and other liabilities arise from the reclassification of interest on funds withheld under the quota share contract from other liabilities and reinsurance recoverables from non-life and health similar to non-life to deposits from reinsurers. Reinsurance payables are also reclassified to technical provisions. The difference in the deposits due from reinsurers relates to differing discount rates and additional ceded investment income.

For all other classes of liability there is no difference between the IFRS valuation and the Solvency II balance sheet valuation. Full details on valuation methodologies can be found in the LVIC Annual Report and Financial Statements.

D.4 Alternative methods for valuation

The Company holds managed fund investments which are classified as Level 3. The valuation of the various fund investments is conducted by independent third party valuation service providers on a quarterly basis. Full details on the valuation methodology can be found in the LVIC Annual Report and Financial Statements.

D.5 Any other information

There is no other material information on the valuation of assets or liabilities.

E. Capital Management

E.1 Own Funds

Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

The Company maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of three years.

The Company applies an integrated risk capital framework, taking into account appetite and capital allocation across the Company. Capital management protects the Company's Own Funds in line with the Risk Strategy and Appetite. Both risk considerations and Own Funds needs are integrated into management processes through the attribution of risk and allocation of Own Funds to the various lines of business.

A core element of the approach to capital management is the approval by the Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate margin over the SCR.

The current liquidity plan and solvency projections reflect all planned changes in Own Funds for the next three years.

There were no material changes over the reporting period with regards to objectives, policies and processes employed by the Company for managing its Own Funds.

The table below shows the breakdown of the Own Funds by tier, and the SCR coverage. The SCR is unaudited.

	2023 (£m)	2022 (£m)	Movement (£m)
Ordinary shares	575	385	190
Reconciliation reserve	(16)	37	(53)
Total tier 1	559	422	137
Net deferred tax assets	38	25	13
Total tier 3	38	25	13
Total eligible own funds to meet the SCR	597	447	150
SCR	435	362	73
SCR coverage ratio*	137%	123%	14%
Total eligible own funds to meet the MCR	559	422	137
MCR	143	116	27
MCR coverage ratio	390%	364%	26%

*There is no allowance for a foreseeable dividend.

E. Capital Management continued

Only tier 1 and tier 2 Own Funds are eligible to meet the MCR so tier 3 Own Funds have been excluded from the MCR coverage ratio. No Own Fund items for the Company are subject to transitional measures for their inclusion in tier 1. The Company does not have any tier 2 Own Funds. There are no restrictions on the eligibility of available Own Funds to support the SCR and MCR, and no matching adjustment portfolio exists. The Company has no subordinated debt, or ancillary Own Fund items. Capital injections amounting to £190m were made during the year. The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet only.

The sensitivity of the Own Funds to both market and non-market risks is provided in the table in section C.7. The significant changes in Own Funds over the reporting period are provided in the table below.

	£m
(Loss) after tax earned by the company in the year	(25)
Capital injection	190
Net unrealised gains (gross of tax) on the investment portfolio	66
Movement in technical provisions	(189)
Goodwill, deferred tax and other	108
Total movement over the year	150

As at 31 December 2023 there is no difference between the excess of assets over liabilities and Own Funds.

Reconciliation between IFRS and Solvency II excess of assets over liabilities

The Solvency II excess of assets over liabilities amounts to £597m, whereas the IFRS excess of assets over liabilities amounts to £652m. The difference of £55m is largely attributable to key drivers, previously analysed in section D and summarised in the table below.

	£m
IFRS excess of assets over liabilities	652
Goodwill and intangible assets (IFRS balance sheet items that are not recognised in MVBS)	(17)
Differences in the valuation of loans and mortgages	(1)
Differences in recognition and valuation of technical provisions and reinsurance recoverables (including associated receivable/payable)	(89)
Inclusion of participations at Solvency II value	25
Deferred taxes on the above mentioned balance sheet valuation differences	27
Solvency II excess of assets over liabilities	597

E. Capital Management continued

E.2 Solvency Capital Requirement and Minimum Capital Requirement

This sub-section is unaudited with regards to information on the SCR.

The SCR at 31 December 2023 amounts to £435m and the MCR amounts to £143m.

The Company uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. The Company is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

A split of the SCR by the risk modules and sub-modules modelled by the standard formula model is shown in the following table. The comparative figures for 2022 and the movement over the reporting period are also shown.

Category of risk	Capital (£m)		
	2023	2022	Movement
Non-life underwriting risk	368	304	64
Premium and reserve risk	297	244	53
Catastrophe risk	68	58	10
Lapse risk	3	2	1
Market risk	174	157	17
Equity risk	50	47	3
Interest rate risk	30	37	(7)
Spread risk	93	73	20
Currency risk	1	-	1
Concentration risk	-	-	-
Counterparty default risk	15	13	2
Life underwriting risk	1	1	-
Health underwriting risk	1	-	1
Operational risk	46	39	7
Sum of standalone risks	605	514	91
Diversification benefit	(170)	(152)	(18)
Loss-absorbing capacity of deferred taxes	-	-	-
SCR	435	362	73

The total diversified SCR for the Company increased by £73m over the year from £362m to £435m. The movement is predominantly driven by:

- Premium and Reserve Risk increased by £53m mainly due to growth in the business, including the migration of exposure from Fairmead Insurance Limited and an increase in net Claims Provision due to the impact of higher inflation and a fall in the yield curve over the year increasing reserves.
- Catastrophe Risk increased by £10m due to the increase in exposure from the migration of exposure from Fairmead Insurance Limited.
- Spread Risk increased by £20m due to an increase in the market value of bonds due to the fall in the yield curve and credit spreads over the year.

E. Capital Management continued

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company has not applied the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between Standard Formula and any Internal Model used

This does not apply as the Company does not currently use an Internal Model to calculate its SCR.

E.5 Non-compliance with the Minimum Capital Requirement and the Solvency Capital Requirement

The Company has complied continuously with the MCR and the SCR.

E.6 Any other material information

In view of the Solvency II solvency ratio of 137% as at 31 December 2023 and the stress tests performed, the Company does not expect any breach of its SCR and anticipates that it will remain suitably capitalised going forward.

Statement of Directors' Responsibilities

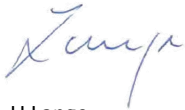
Financial period ended 31 December 2023

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 4 April 2024 and signed on its behalf by:



U Lange

Director

Liverpool Victoria Insurance Company Limited

5 April 2024

Report of the external independent auditors to the Directors of Liverpool Victoria Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2023, (**the Narrative Disclosures subject to audit**); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, and S.19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in

accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining managements' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Evaluating managements' solvency scenario analysis and challenging management's key assumptions;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the PRA Rulebook Group Supervision 17.2(3) Version
- Approval for modifications to the PRA Rulebook Group Supervision 4.2, 4.4, and the waiver of the PRA Rulebook Group Supervision 5 to 19.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as Solvency II Regulations 2015. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to inappropriate adjustments to derive the Solvency II Balance Sheet, such as increasing the value of Own Funds of the Company, management bias in estimates and judgemental areas of the Solvency II Balance Sheet and Solvency Capital Requirement such as the Solvency II valuation of Non-Life Technical Provisions. Audit procedures performed included:

- Discussions with the Board of Directors, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud relevant to the SFCR;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee, and the Reserving Committee;
- Reading key correspondence with and reports to the Prudential Regulation Authority and/or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Identifying and testing journal entries in the production of the underlying IFRS statement of financial position, in particular any journal entries that are determined to demonstrate fraud characteristics; and
- Procedures relating to the valuation of technical provisions and the valuation of investments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit 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 this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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.



PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

SE1 2RT

5 April 2024

Balance sheet

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023SOL2
 Period: Annual
 Currency: GBP - Great British Pounds
 EIOPA QRT: S.02.01

Balance Sheet

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	38,119
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
contracts)	R0070	1,939,283
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	223,417
Equities	R0100	
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	R0130	1,672,949
Government Bonds	R0140	560,161
Corporate Bonds	R0150	1,075,256
Structured notes	R0160	0
Collateralised securities	R0170	37,532
Collective Investments Undertakings	R0180	42,714
Derivatives	R0190	204
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	71,922
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	71,922
Reinsurance recoverables from:	R0270	788,908
Non-life and health similar to non-life	R0280	745,086
Non-life excluding health	R0290	743,936
Health similar to non-life	R0300	1,150
unit-linked	R0310	43,822
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	43,822
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	12,908
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	17,499
Own shares (held directly)	R0390	0
paid in	R0400	0
Cash and cash equivalents	R0410	39,749
Any other assets, not elsewhere shown	R0420	1,695
Total assets	R0500	2,910,083
Liabilities		
Technical provisions - non-life	R0510	1,501,542
Technical provisions - non-life (excluding health)	R0520	1,498,903
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	1,473,549
Risk margin	R0550	25,354
Technical provisions - health (similar to non-life)	R0560	2,639
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	2,617
Risk margin	R0590	22
Technical provisions - life (excluding index-linked and unit-linked)	R0600	55,106
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
linked)	R0650	55,106
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	54,760
Risk margin	R0680	345
Technical provisions - index-linked and unit-linked	R0690	
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	685,263
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	5,066
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	60,443
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	5,738
Total liabilities	R0900	2,313,159
Excess of assets over liabilities	R1000	596,924

Life and Health SLT Technical Provisions

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023 Solvency II
 Period: Annual
 Category: Default Original Amount
 Currency: GBP - Great British Pounds
 EIOPA QRT: 5.12.01

Life and Health SLT Technical Provisions

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including direct-linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health insurance (reinsurance accepted)	Total (Health similar to life insurance)		
		Contracts without options or guarantees	Contracts with options or guarantees	Contracts without options or guarantees	Contracts with options or guarantees	Contracts without options or guarantees				Contracts with options or guarantees	Contracts without options or guarantees				Contracts with options or guarantees	
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0000									0						0
Total Recoverables from reinsurers/SPV and Pavia Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020									0						0
Technical provisions calculated as a sum of BE and RM	R0020									0						0
Best Estimate	R0030									54,792						54,792
Total Recoverables from reinsurers/SPV and Pavia Re after the adjustment for expected losses due to counterparty default	R0080									43,822						43,822
Best estimate minus recoverables from reinsurers/SPV and Pavia Re - total	R0090									10,970						10,970
Risk Margin	R0100									345						345
Amount of the transitional on Technical Provisions	R0110									0						0
Technical Provisions calculated as a whole	R0120									0						0
Best estimate	R0130									0						0
Risk margin	R0140									0						0
Technical provisions - total	R0200									55,136						55,136

Non - life Technical Provisions

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023 Solvency II
 Period: Annual
 Category: Default Original Amount
 Currency: GBP - Great British Pounds
 EOPA QRT: 5.17.01

Non - life Technical Provisions

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligations	
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicles liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	0
Total Recoverables from reinsurance/SPV and Fintech Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050																	0
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	1,682			216,295	142,048		66,636	598			-4,331	5,231					421,955
Total recoverable from reinsurance/SPV and Fintech Re after the adjustment for expected losses due to counterparty	R0140				74,634			39,657	477			4,765	7,533					243,995
Net Best Estimate of Premium Provisions	R0150	996			141,661	142,048		26,979	121			-9,066	-2,302					177,960
Claims provisions																		
Gross	R0160				572,292	1,109,389		178,892	14,399			4,329	5,489					1,754,412
Total recoverable from reinsurance/SPV and Fintech Re after the adjustment for expected losses due to counterparty	R0140				405,438	66,117		80,775	6,647			1,761	561					501,491
Net Best Estimate of Claims Provisions	R0250				166,854	1,043,272		98,117	7,752			2,568	4,928					1,215,453
Total Best estimate - gross	R0260				1,638,587	2,211,437		245,528	14,988			48	6,719					1,476,187
Total Best estimate - net	R0270				618,515	1,485,320		114,096	7,881			-4,297	-1,788					713,489
Risk margin	R0280				22	15,189		1,907	4,311	157		176	110					25,778
Amount of the transitional on Technical Provisions	R0300																	0
Best estimate	R0300																	0
Risk margin	R0310																	0
Technical provisions - total																		
Technical provisions - total	R0320	2,429			1,202,185	33,149		241,241	15,146			223	6,910					1,301,922
Recoverable from reinsurance contract/SPV and Fintech Re after the adjustment for expected losses due to counterparty default - total	R0330	1,150			571,321	39,317		126,442	7,123			6,516	8,196					745,086
Technical provisions minus recoverables from reinsurance/SPV and Fintech Re - total	R0340	1,489			630,864	2,832		128,779	8,022			-6,293	-1,277					756,456

Own funds

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023 Solvency II
 Period: Annual
 Category: Default Original Amount
 Currency: GBP - Great British Pounds
 EIOPA QRT: S.23.01

Own funds

		Total C0010	Tier 1 - unrestricted C0020	Tier 1 - restricted C0030	Tier 2 C0040	Tier 3 C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/238						
Ordinary share capital (gross of own shares)	R0010	574,908	574,908			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	-16,103	-16,103			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	38,119				38,119
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	596,924	558,805			38,119
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0330					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	596,924	558,805			38,119
Total available own funds to meet the MCR	R0510	558,805	558,805			
Total eligible own funds to meet the SCR	R0540	596,924	558,805			38,119
Total eligible own funds to meet the MCR	R0550	558,805	558,805			
SCR	R0580	434,840				
MCR	R0600	143,118				
Ratio of Eligible own funds to SCR	R0620	137.27%				
Ratio of Eligible own funds to MCR	R0640	306.45%				
Reconciliation reserve						
Excess of assets over liabilities	R0700	596,924				
Own shares (held directly and indirectly)	R0710					
Foreseeable dividends, distributions and charges	R0720					
Other basic own fund items	R0730	613,027				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740					
Reconciliation reserve	R0760	-16,103				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life Business	R0770					
Expected profits included in future premiums (EPIFP) - Non- Life Business	R0780	6,460				
Total Expected profits included in future premiums (EPIFP)	R0790	6,460				

Solvency Capital Requirement - for undertakings on Standard Formula

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023 Solvency II
 Period: Annual
 Category: Solvency II: Solo Purpose
 Currency: GBP - Great British Pounds
 EIOPA QRT: S.25.01

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP
		C0110	C0090
Market risk	R0010	138,633	
Counterparty default risk	R0020	15,399	
Life underwriting risk	R0030	915	
Health underwriting risk	R0040	701	
Non-life underwriting risk	R0050	321,120	
Diversification	R0060	-88,217	
Intangible asset risk	R0070		
Basic Solvency Capital Requirement	R0100	388,551	

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	46,289
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	434,840
Capital add-on already set	R0210	
Solvency capital requirement	R0220	434,840
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	1 - Yes

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Entity: LVIC - Liverpool Victoria Insurance Company Limited
 Scenario: 2023 Solvency II
 Period: Annual
 Category: Solvency II: Solo Purpose
 Currency: GBP - Great British Pounds
 EIOPA QRT: S.28.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	1,467	3,976
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	611,675	442,958
Other motor insurance and proportional reinsurance	R0060	1,435	267,587
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	116,466	172,950
General liability insurance and proportional reinsurance	R0090	7,865	1,567
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		18,625
Assistance and proportional reinsurance	R0120		31,319
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	10,938	
Total capital at risk for all life (re)insurance obligations	R0250		0

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	142,889	
MCR L Result	R0200		230

Overall MCR calculation		C0070
Linear MCR	R0300	143,118
SCR	R0310	434,840
MCR cap	R0320	195,678
MCR floor	R0330	108,710
Combined MCR	R0340	143,118
Absolute floor of the MCR	R0350	3,495
Minimum Capital Requirement	R0400	143,118