COMPANY REGISTRATION NUMBER: 03232514

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

D B Barral	Resigned 31 December 2019
A R Cook	Resigned 31 December 2019
J M Dye	
R O Hudson	
K P Wenzel	Resigned 31 December 2019
R A Rowney	Resigned 31 December 2019
S Treloar	
D S Neave	Resigned 31 December 2019
B D Smith	Resigned 31 December 2019
D A Torrance	Appointed 1 January 2020
D J Larnder	Appointed 1 January 2020
C W T Dinesen	Appointed 1 January 2020
N C Peiris	Appointed 1 January 2020
R M Munson	Appointed 1 January 2020
F K Dyson	Appointed 1 January 2020

Company Secretary

M P Jones	Resigned 31 December 2019
T A Beicken	Appointed 1 January 2020

Registered office

57 Ladymead
Guildford
Surrey
England
GU1 1DB

Tel: 01202 292333

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

STRATEGIC REPORT

1. Results and dividends

The profit after tax for the year attributable to the shareholders is £72,330,000 (2018: £71,082,000) as set out on page 17. The Directors have declared and paid £80,300,000 in the current year to the parent company as an interim dividend (2018: £64,495,000). No final dividends were proposed or paid (2018: nil). As a result of the sale of the 51% stake in the company by its immediate parent to Allianz Holdings plc on 31 December 2019, there is a contractual liability for Liverpool Victoria General Insurance Group ('LVGIG') to pay a dividend estimated at £76,000,000 and as a consequence for Liverpool Victoria Insurance Company to pay £13,000,000 to LVGIG and accordingly this has been recorded through equity. The amount payable will be re-assessed using relevant factors including the closing Solvency position at the point of payment, which will be made in 2020. See note 31 and 32 for further details. Subsequent to year end it has been proposed to increase the £13,000,000 dividend to £73,000,000. The Net Asset Value at 31 December 2019 was £725,487,000 down £5,138,000 from the position the previous year, after allowing for a restatement that reduces net assets by £6m as set out in note 2.

2. Principal activities

Liverpool Victoria Insurance Company Limited's ('Company') principal purpose is the undertaking of 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, Home insurance products and Insurance for Small and Medium Size Enterprises ('SME'). Motor insurance products include Private Car, Specialist Car, and Motorcycle. The Company also underwrites Road Rescue, Pet and Travel Insurance.

On 28 December 2017, the Company sold its Commercial broker lines renewal rights to Allianz Insurance plc as part of a wider deal which saw Allianz Holdings plc acquire 49% of Liverpool Victoria General Insurance Group Limited ('LVGIG'), an intermediary parent holding company. As a result the Company ceased writing Commercial broker new business during 2018. The Commercial broker business represents a separate major line of business for the Company and is therefore presented as a discontinued operation. The discontinued operations are therefore shown on one line only in the Statement of Comprehensive Income.

On 31 December 2019, Allianz Holdings plc acquired the remaining 51% of LVGIG to take full control.

As part of LVGIG's strategy to diversify and grow its business, on 1 January 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') subsequently renamed as Fairmead Insurance Limited ('Fairmead'). Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home with a small but growing Pet business.

Fairmead is the 7th largest Home insurance provider in the UK with more than 2 million customers using various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors (IFA's).

Towards the end of 2020, it is anticipated that existing customers of Fairmead will start to be invited to renew their policies with the Company or one of its subsidiaries Highway Insurance Company Limited ('HICO').

3. Business review and developments

(a) Results and performance

The 2019 results for the Company show a profit before taxation from continuing operations of £78,680,000 (2018: £102,751,000). The result reflects the slow start to the year following an increase in prices, as well as a difficult Broker environment.

2019 ended with LVGIG customers holding almost 5.6m LV= policies (2018: 5.2m) with the Company having 4.6m of these policies, up 5% from 4.4m in 2018. In addition, both measures of customer satisfaction, Net Promotor score of 72.0 (2018: 70.1) and UK Customer Satisfaction Index of 10th position (2018: 10th), have continued to show strong results.

The following factors have had a material effect on the result for the year (see also (f) Key performance indicators on page 9):

3. Business review and developments (continued)

(a) Results and performance

1. Premium written: Market conditions have remained very competitive, particularly in the Motor market where prices increased following the Ogden rate review. Overall, the Company saw premium written on a continuing basis rise by 9%. Throughout 2019, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in Home lines by diversifying its reliance upon Motor.

2. Underwriting result: The Company's underwriting result from continuing operations fell during 2019, with the combined ratio rising from 89.5% to 95.3%. The result was impacted by large losses incurred in the second half of 2019, arising from large personal injury claims and increased vehicle repair costs. In addition, the change to the Ogden Discount Rate contributed a further £8m of unexpected claims costs as prior to the announcement of an Ogden rate change to -0.25% in England and Wales, the company was anticipating and setting reserves using a rate of 0%.

3. Investment returns: Overall investment returns were much better than prior year, delivering an increase of £18m, which was aided by the change in investment strategy which started during 2018, with the Company focussing more on corporate and government bonds which have delivered increased yields.

4. Expenditure: As with recent years, the Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

5. Claims: During 2019, the Company experienced some impact from the persistent Autumn rain and flooding, and the continued increases in vehicle repair costs which led to a higher claims position, with overall gross claims having increased by over 17% year on year from continuing operations. This includes the impact of the change in the Ogden Discount Rate, as quantified on page 4 section 3 (a) 2 Underwriting result.

6. Reinsurance: In the latter part of 2015 the Company entered into a Loss Portfolio Transfer ('LPT') Agreement resulting in reinsurance of 20% of its booked reserves for 2015 and prior reserves, and from 1 January 2016 a 20% quota share arrangement on new business. The later arrangement was renewed each subsequent year with a change of reinsurer to the Allianz SE Group of companies, the ultimate parent company for the 2019 renewal, which has then also been renewed for 2020.

(b) Business environment

In July 2019, the Lord Chancellor announced a change to the Ogden Discount Rate setting it to -0.25% for England and Wales. This was lower than the 0% to 1% range previously indicated by the Government and the 0% which the Company was at that time assuming for the purpose of determining claims reserves.

Until the end of the year, there was continuing uncertainty around Brexit and the eventual outcome. The recent general election has provided greater clarity although as we enter the temporary transition period there remains considerable uncertainty on the terms of any final trade deal with the EU. The Board has maintained a continuous monitoring of the emerging Brexit situation including a review of the Brexit impacts arising from credible scenarios. Although there remains uncertainty we have in particular assessed the financial and operational impacts of an unfavourable Brexit Trade deal, with a focus on ensuring that our customers continue to be serviced. These include implementing an on-line solution for issuing Green Cards, providing clear guidance for our customers on LV.com, and reviewing our suppliers and the wider supply chain for resilience. We believe that, should the UK leave without a deal, there could be a negative impact on the cost of vehicle repairs arising from tariffs, exchange rate movements, and delays in the supply of parts. There could also be impacts on the cost and/or the ability to recover vehicles from EU countries (see also page 6 section d for further information).

For some time now UK insurers have been unable to rely on investment returns to deliver as much income, at an acceptable level of risk, as has been generated in the past. Underwriting activities are therefore required to deliver proportionately higher returns in order to maintain a sustainable business for both our shareholders and our customers.

3. Business review and developments (continued)

(c) Strategy

Our vision is to be Britain's best loved, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperformance particularly in the Motor market.

As a consequence of the changes in ownership (as referred to in section 2 Principal activities) the Company ceased to write any new Commercial broker business during 2018. The Company focus is now on personal lines and, with the acquisition by the group of Fairmead this improves diversification from the current concentration on personal motor.

(d) Principal risks and uncertainties

Coronavirus (Covid-19): The global pandemic is a new a significant source of uncertainty for the business in 2020. The LVGIG Group are closely monitoring the situation with senior leaders meeting on a daily basis to manage operational risk and responses. There is close alignment and interaction with Allianz to ensure the company is benefiting from the wider Allianz UK Group response. Our values will drive our decision making as the Company works through this challenging time, with a focus on putting our people first and our customers at the heart of what we do. The key risks this presents are both operational and financial which are being actively monitored and managed on a daily basis. Regular communications are taking place across the organisation to keep all colleagues informed throughout the period of uncertainty. The risks have largely come to the fore from late February onwards as new information emerges and the government response develops.

The operational risks from Covid-19 are largely being addressed by increasing homeworking capability and reducing non-priority activity. Work has been prioritised to support claims payments and existing customers, particularly to renew their policies. New business is a lower priority but still able to be written. Our offices remain open for the few key workers who undertake activities which cannot be completed outside of the office. Alongside this we prioritise a number of financial reporting and operational activities, as well as activities from other areas including IT which support these.

Financial risks which are being assessed and responded to include adverse movements in investment held, in particular the increase in credit spreads (the gap between yields and the risk free rate) on the corporate bond portfolio. Travel claims have started to rise substantially although the amount of business written by LVGIG is a very small proportion of the overall business. Sales of new business on Travel were paused during February 2020 to reduce this exposure. Against this we see new claims on Motor, Home and Pet falling in March 2020 which will lead to claims cost savings. The government instruction for people to stay at home is leading to fewer journeys being made and hence as long as this persists we expect to see reductions in motor accidents and hence claims.

We are working closely with key suppliers to understand and manage the impact of Covid-19 on our supply chain. The reduced demand allows these companies to operate with their own diminished operational capabilities but equally puts financial pressure on many of them.

The solvency position of the subsidiary insurance companies is being frequently monitored in light of these emerging financial risks. The impact as noted above is in some cases positive and in others causes a strain. We continue to assess the level of solvency against the company risk appetite and maintain a number of contingency actions should the solvency position become under stress and need addressing.

Pricing: Motor rates remained stable in the first half of the year, with continuing increases in vehicle repair cost inflation and theft costs being offset by reductions in claims frequency. Rates were increased in the latter half of the year, to protect 2020 profitability following the announcement of a lower than expected Ogden discount rate and increasing expectations of a delay to implementation of Civil Liability Act whiplash reforms. It is expected that rates will continue to increase early in 2020, before reducing in the latter part of the year as we gain more certainty around the implementation date of the Civil Liability Act reforms. The impacts of the Covid-19 pandemic may lead to changes in this pricing outlook.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

Economic Environment: The financial market environment fluctuated during 2019, with the FTSE 100 up over 800 points on the year, ending at 7542.4. Whilst the company has now disposed of its equity holdings, the general market conditions were more stable, with bond and fixed indices also performing well. Uncertainty over Brexit remained throughout 2019 however the de-escalation of the US v China trade war helped markets rebound and the outcome of the UK General election buoyed exchange rates at the end of the year. It was expected that the early part of 2020 would be more stable with less talk of a US recession and negotiations with the EU being finalised. However the Covid-19 development has led to significant reductions in market values in the early part of 2020 and heightened volatility. Stock markets have fallen sharply and the Bank of England and UK Government have taken unprecedented steps in response with base rates reduced to a historic low of 0.1% and broad financial support measure introduced to try to support the economy. It is anticipated that the UK will enter a period of recession in 2020 due to this economic shock.

Brexit: There is a risk of an unfavourable Brexit Trade deal, where enforced tariffs and potential exchange rate movements could lead to higher claims inflation. In accordance with our reserving policy, we hold a margin above the Actuarial Best Estimate, to allow for future uncertainties such as Brexit. We have assessed the potential impact and likelihood of an unfavourable Brexit Trade deal and believe that the amounts held adequately cover this risk in so far as it impacts reserves as at 31 December 2019. (Further information on the assessment done by the Board can be found on page 5 section b).

Financial risk: The Company pays particular attention to credit risk and the increasing trend of claims leakage through fraud. Capital management and cash flow remain material considerations at all times.

Business Change: The Company has undergone a significant amount of transformation in the last 12 months, including ceasing to use some of the outdated policy systems and ensuring it continues to prepare for a more digitalised way of working. The company removed its sole reliance on its former parent Liverpool Victoria Financial services Limited ('LVFS') formerly Liverpool Victoria Friendly Society group which provided services by way of a Transitional Services Agreement, the vast majority of which concluded by the end of 2019. Such change carries with it an element of operational risk; however, the Directors mitigate this risk through a disciplined project management approach. All key services such as HR, Compliance and Internal Audit have now been transferred over to the Allianz Group giving the Company access to a wider pool of expertise.

Distribution/Market developments: The influence of the mobile internet and price comparison websites (commonly referred to as "aggregators") continue to transform the UK business environment, although it could be argued that the use of aggregators is now a market norm. The use of artificial intelligence and the need for digital transformation is now at the forefront of how the Company wants to do business with its customers and as such the Company is looking at ways to utilise the technology available. Social media continues to be a feature which influences the way that the Company conducts its business, and is therefore monitored closely by the Company.

Insurance specific developments in technology, such as driverless cars, are other potential factors of material market transformation in the future. The Company is ensuring that it is prepared to respond quickly to changing circumstances.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as it considers appropriate through the purchase of reinsurance protection. During 2019, the Company only experienced minimal impact from the persistent Autumn rain and flooding and was not too severely impacted relative to its market share.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

Regulatory: The Group used the Standard Formula to calculate its capital requirements during 2019. Throughout the year a number of legal and regulatory developments affected the UK insurance market including: A number of legal and regulatory developments affected the UK insurance market during 2019 and will continue into 2020. These include:

1. Financial Conduct Authority ('FCA'): The FCA continues to publicise its intentions to intervene more actively in the workings of the market where it feels that the right outcomes are not being achieved for the consumer e.g. consultation on renewal prices. This may result in requirements to change practice in product design, distribution and pricing. While the Company considers that customer value is at the heart of the way it does business, as evidenced by market leading customer satisfaction and recommendation scores, there is a risk that such interventions designed to address general market concerns cause material cost and disruption to the Company.

2. Ogden Discount Rate: The Ogden Discount Rate is used by insurance companies to calculate a discounted lump-sum value of the future cost of care for large personal injury claims. A revised Ogden Discount Rate for England and Wales was announced in July 2019 at -0.25%. This was generally not received well by the industry, which had expected a rate of 0% or higher. The equivalent rate in Scotland was also reviewed and set at -0.75%.

3. General Data Protection Regulation ('GDPR'): On 25 May 2018, the Data Protection Act was replaced with a new piece of EU regulation, GDPR, which governs the data that can be held about customers, the length of time that data can be kept and the security of that data. The Company undertook an extensive programme and completed the first stage of compliance requirements by the 2018 deadline, ensuring systems and processes only capture the essential data and minimising the time data is held. Work has continued since then to ensure continued progress with compliance requirements.

4. Cyber Risk: The risk that the LVGIG Group does not have a sufficiently robust strategy and control infrastructure in place to protect itself against, or to recover from, a cyber event. The high-level of threat from the external environment continued during 2019. High profile data loss incidents demonstrate the serious impact such events can have. LVGIG Group operates a comprehensive cyber risk strategy which is designed to ensure that the group continues to identify, assess and respond to the ever changing threat of a cyber attack. Further development of the group's cyber risk strategy, embedding of controls targeted at data privacy and enhanced mechanisms for monitoring and reporting mean that although the external environment generates a heightened risk.

Further detail as to how the Company manages its principal types of risk is disclosed in note 4 of the financial statements.

(e) Future outlook

We will continue to price all our portfolios of insurance policies in order to provide a fair and reasonable price for our customers rather than one which is not sustainable, and we will not chase growth at the expense of putting our future at risk.

At the date of signing, the outcome of the Brexit negotiations with the EU is uncertain and the full impact of Covid-19 is unknown, however the Company expects to continue to deliver underwriting profits in 2020 through the price increases implemented in 2019, while retaining its focus on high levels of customer service and delivering fair customer outcomes.

3. Business review and developments (continued)

(f) Key performance indicators ('KPIs')
The Board sets KPIs and targets for its main operating businesses, which it monitors on a regular basis throughout the year. These KPIs change from time to time as objectives and priorities change.

The Company uses many detailed KPIs to monitor performance. The main key metrics routinely used, shown on a continuing basis, are as follows;

KPI	2019	2018	Comments
Premiums written	£1,198.3m	£1,100.4m	Premiums written has increased year on year on a continuing basis, this is despite operating in a very competitive market with the Company keeping good underwriting and pricing discipline.
Underwriting loss ratio	75.5%	70.3%	The result was impacted by large losses incurred in the second half of the year, arising from large personal injury claims and increased vehicle repair costs. In addition, the change to the Ogden Discount Rate contributed to further claims costs.
Expense ratio *	19.3%	19.2%	The year on year expense ratio is line with expectation.
Combined ratio	95.0%	89.5%	An overall combined ratio of 95% has worsened, which has been driven by the unfavourable movement in the underwriting loss ratio. This is primarily as a result in an increased claims inflation and the impact of the Ogden discount rate change adopted.
Investment return	£33m	£14.8m	The total investment return for 2019 reflects the movement of the investment strategy, re-balancing the portfolio assets which have been classified as Available For Sale, in line with the Company's updated investment strategy which came into force during 2018. The investment focus has been to invest in Corporate and Government bonds, with the increased yields contributing to the investment returns increase.
Net assets	£725.5m	£730.6m	Net assets year on year have decreased by £5.1m, primarily due the growth in profit being offset by the dividend payable.

* Expense ratio excludes amortisation of goodwill, and investment management costs, but includes interest earned from selling policies on instalments and ancillary income derived from the sale of the principal products.

- *Underwriting loss ratio - Calculated as: Gross claims cost net of reinsurance / Gross premiums net of UEPR and Reinsurers share of gross premiums*
- *Expense ratio * - Calculated as: Other income less other operating and admin costs, net of expenses recoverable from reinsurers / Gross premiums net of UEPR and Reinsurers share of gross premiums*
- *Combined ratio - This is the combination of the underwriting loss ratio and the Expense ratio*

The Company also uses a range of non-financial KPIs which are disclosed and managed at the ultimate parent Company level.

During 2019 LVIC was governed by a LVGIG Board which included joint Allianz and LVFS appointed directors. Following 31 December 2019 LVIC is governed by a joint Allianz and LVGIG Board and follows the LVGIG Corporate Governance process.

LVGIG Corporate Governance Report

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, LVGIG applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (‘FRC’) in December 2018 and available on the FRC website).

LVGIG s.172 Statement

The board actively engages with its stakeholders, which are considered to be its shareholders, workforce, suppliers, brokers, regulators and customers. The table below, which refers to the Wates Principles for Large Private Companies, provides a summary of how the board considered the impact on stakeholders and discharged its duties under s.172 of the Companies Act 2006 when making decisions.

The Wates Principles for Large Private Companies

Principle 1 – Purpose and leadership

Developing and promoting purpose ensuring values, strategy and culture align with the purpose.

Liverpool Victoria General Insurance Group Limited is the holding company for a group of companies ('Group'), the principal purpose of which is to carry on 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, Home insurance products and Insurance for Small and Medium Size Enterprises ('SME'). Motor insurance products include Private Car, Specialist Car, Fleet, Motorcycle and Commercial Vehicles. The Group also underwrites Road Rescue, Pet and Travel Insurance.

Our vision is to be Britain's best loved, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperforming in our chosen markets. The Group aims to deliver attractive and consistent returns to its shareholders.

Our values are closely aligned to the strategy and the Board believes that its role is to set the tone from the top on governance, culture and purpose and to be collectively responsible for the long-term success of the company. For the Board, this means not only ensuring that the culture is fully embedded throughout the workplace, but ensuring that we comply with all relevant laws and regulations, have high standards of internal control and risk management, and that we run our business with integrity. The Group promotes, amongst many other things: staff wellbeing; apprenticeships to support staff in retraining for digital roles, managing supply chains in a socially responsible manner, exploring opportunities for strategic growth through new product development and new channels of distribution, as well as providing excellent customer service proven through the market leading Net Promoter Scores (NPS).

The Board seeks to ensure that we truly live our values every day, delivering for our customers, colleagues and members, harnessing the latest technologies and building a business that is suitably lean and strong. By promoting this strategy and aligning it to our values, the Board helps ensure that LVGIG is focused on being Britain's best loved insurer.

Throughout 2019, the Board focused a significant amount of time on creating an environment where our people, no matter their background, felt included and were able to succeed, and also ensuring that as a company we continue to operate in an ethical, environmentally friendly and sustainable manner. To achieve this, we appointed a new Corporate Responsibility Director who is responsible for delivering the strategy. Our progress in this area was also recognised as the Group were awarded 16th place in the Inclusive top 50 UK Employers List in 2019

Principle 1 – Purpose and leadership (continued)

From the end of 2019 LVIC became a fully owned subsidiary company of the ultimate parent Allianz SE. Allianz has announced that as a commitment to its environmental responsibilities it intends that the tradable proprietary investments that the Allianz group manages are to be structured climate-neutral by 2050. LVIC will therefore be bound by this commitment.

Principle 2 – Board Composition

Having an effective chair, and balance of skills, backgrounds, experience and knowledge for Directors. Size of board is guided by scale and complexity of the company.

Membership
During 2019, the Group had a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a key role in creating the conditions for overall Board and individual director effectiveness.

During 2019, the Board comprised a Chairman, Senior Independent Director and Independent Non-Executive, Chief Executive, Chief Financial Officer, and five Non-Executive Directors. This size and composition is appropriate to the scale of the business,. The Board were committed to making the Board and the company a diverse and inclusive environment, evidenced by the focus of achieving 40% female representation at senior management levels across the business.

The addition of an Independent Non-Executive Director in 2018 brought experience across the insurance sector. During 2019, there was only one Independent Non-Executive Director, as the other Non- Executive Directors were appointed as 'nominated' Directors by the two shareholders in the joint venture, Allianz and Liverpool Victoria based on their respective share allocations under the Shareholder Agreement.

With the exception of the Chair, who has a casting vote, all Directors during 2019 had equal voting rights. Based on the requirements of the Shareholders Agreement, between LV Capital plc and Allianz Holdings plc in place which took effect in 2017, a vote could not be taken without at least one "nominated" director from the respective Shareholders being present. From 31 December 2019, when Allianz Holdings Plc took control of the Group this later requirement was removed. All of the Directors have access to the Company Secretary and can take professional advice at the company's expense if required.

From 31 December 2019, the Group will continue to have representation on the Allianz Board.

Committees
During 2019, the Board was supported by three committees which were chaired by shareholder 'nominated' Non-Executive Directors. The activities of the committees are determined by Board approved Terms of Reference, which are reviewed annually. The three Board committees, Audit, Risk and Nominations and Remuneration all had membership made up from the Non-Executive Directors of the Board. Updates from the Committees were provided by the Committee Chairs at each Board meeting, which included recommendations for Board review and approval. From 31 December 2019, the LVGIG Board is supported by four committees which support all of the Boards of the Allianz Holdings group of companies including LVGIG. This is made up of the Audit, Risk, Finance, Nominations and Compensations committee, the terms of reference for each committee specify the minimum number of Non-Executive Director from the Board in attendance which varies for each committee but is always one or more.

Director Skills & Knowledge
The Directors updated their knowledge and skills during 2019 through attending training provided by senior management to the Board. There is an induction programme for all new Directors, but there were no new Directors appointed in 2019. Professional development logs were maintained by the Directors, and these were reviewed by the Nomination Committee during the year.

Principle 2 – Board Composition (continued)

Board Effectiveness
During 2018, an internal review of Board Effectiveness was undertaken which identified a number of areas for improvement which the Board have reviewed and taken forward during 2019. These included:

- Review of gender mix on the Board. It was agreed this would be a key requirement of the change in ownership succession planning, being a consideration in formulating the new Board and Committee composition for 2020.
- More focus on performance and market trends in the Board reporting. Further time was allocated on Board agendas in the second half of the year, with a session added in October to cover key market issues such as the data strategy and a review of Home insurance market trends. In addition, a review of the management reports provided to the Board was undertaken with the outcome of more streamlined reporting.
- The Board highlighted their need for more awareness of the approach taken for the IFRS17 accounting standard. This was addressed in the second half of the year with a session for the Board and a more detailed review with the Audit Committee.

The Board last undertook a formal effectiveness review facilitated by an independent external advisor in 2017, which was a part of the LVFS Group review. During 2019 a decision was taken by the Nomination Committee not to undertake an effectiveness review for LVGIG because of the anticipated change in Board composition for 2020, with the sale of the business to Allianz. This was a clear decision taken not to apply this aspect of the principle, because of the lack of future benefit to the organisation of reviewing a structure no longer in place after the end of 2019.

Consideration will be given in 2020 of how effectiveness reviews will be taken forward as the Board considers effectiveness assessments important in focusing its efforts to continuously improve overall performance.

Principle 3 – Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

Accountability
In 2019, there were ten Board meetings and two strategy days with members of the Executive team. The additional meetings were taken up with discussions on the due diligence for the purchase of the Legal and General business, which was in addition to the Joint Venture between LVFS and Allianz.

The agenda for each Board meeting was carefully considered in advance by the Chair, Chief Executive and Company Secretary to ensure that any cyclical or situational matters follow the correct governance process. A typical meeting comprised of reports from: the Chief Executive on the performance and strategy; the Chief Finance Officer on the trading and financial performance; the Chief Risk Officer on risk and regulatory matters; and the Managing Directors of the Direct and Broker divisions on market, customer and supplier matters. The remainder of the agenda focused on governance matters, the strategic transformation program, committee updates and matters of current interest.

All Board members had a clear understanding of their accountabilities, with the roles and responsibilities reviewed annually by the Nomination Committee to ensure they remain fit for purpose. Annual safeguards were in place to ensure good governance with each Director undertaking an annual review of conduct to confirm they remain 'fit and proper' individuals to undertake the role.

All Directors were expected to report any Conflicts of Interest as they arose. The Board reviewed Conflicts of Interest at each meeting and where they arose appropriate mitigations were put in place. This was a critical consideration for the Board throughout the period of the joint venture as, with the exception of the Independent Non-Executive Director, the remaining Directors were all 'nominated' by the two Shareholders. To support this process a governance manual was produced at the commencement of the joint venture, which set out the policies and practices, including guidance on mitigating Conflicts of Interest.

Principle 3 – Director Responsibilities (continued)

Accountability (continued)
With effect from 31 December 2019 the accountability moved to the single unitary Allianz Board which includes the various companies in the Allianz Holdings Group including LVGIG and its subsidiaries.

Committees
The Board delegated authority for day-to-day management of the company to the Chief Executive, with specific responsibilities for reviewing and recommending items of governance delegated to the Board committees of Audit, Risk and Nomination and Remuneration. These committees all included the Independent Non-Executive Director and a combination of at least one 'nominated' Non-Executive Director from each of the Shareholders. No meeting was able to proceed without the minimum representation of two Non-Executive Directors, with one from each Shareholder being present. Since 31 December 2019 a revised set of Board committees has been introduced.

With effect from 31 December 2019 the responsibilities for these committees moved to the Allianz Board, which also ensures there is at least one Non-Executive Director present.

Integrity of information
There are formal and robust processes in place to ensure the Board receives accurate and timely information about all aspects of the business. This covers financial performance including regular reviews of performance against the business plan, risk management, strategic, operational and market factors. The Board also regularly reviews a suite of performance indicators (KPIs), which make up the Balanced Scorecard, covering customer, workforce, brand, financial, efficiency, strategic change and business control measures.

The information is mostly generated internally. the Financial Statements are annually audited by PwC. Key financial and other business controls are audited by the Group Internal Audit function. A plan of audits is agreed with the Audit Committee annually and is derived through applying a risk based model. The Audit Committee review the outcomes of the reports with agreed management actions to deliver any required improvements to the control environment. During 2019 thirteen internal audit reports were produced and by year end there were no overdue actions outstanding for completion.

Principle 4 – Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

Opportunity
The Board actively considers strategic opportunities as these are key drivers of the strategy to outperform in our chosen markets. In 2019 this included new product development initiatives, the use of artificial intelligence and machine learning to improve both efficiency of process and customer experience through pricing and underwriting initiatives, and a market leading proposition for the electric car market. In the broker channel, system thinking was applied to develop a new operating model for personal lines business which is delivering customer service improvements with Net Promoter Scores (NPS) increasing.

To support the development of artificial intelligence and machine learning, we, set up a new and exciting collaboration through Bristol University, with two data scientists recruited and two data engineers to be based there, with further growth planned in 2020.

Risk
The Board Risk Committee considered the main risks identified by the business, which are managed appropriately and in a timely fashion. The committee met seven times during the year, with four scheduled and three added meetings. The three additional meetings each had a specific focus; on continuing to improve the risk management framework and ensuring it is operating effectively across the business; feedback from an external review undertaken by KPMG of LVGIG's pricing practices in expectation of the outcomes from the FCA Market Study on pricing practices; and an assessment of the risks for a new product proposition.

Principle 4 – Opportunity and Risk (continued)

Risk (continued)

The key operating and strategic risks are outlined in the strategic report and were discussed by the Board Risk Committee at each of their four scheduled meetings during the year.

The Board received a risk update from the CRO at each of their scheduled meetings during the year, which covered the key areas of focus for the Board Risk Committee. This was further enhanced by updates from the Committee Chair to the Board which covered recommendations made and any decisions required. The key strategic risks covered by the Board and the Board Risk Committee in 2019 included Brexit, management stretch resulting from the business change programmes, the regulatory environment including the FCA review of fair pricing and customer conduct risks.

Responsibilities

During 2019 LVGIG implemented the final phases of the risk development programme, which covered new risk assessment processes, a new risk appetite framework and a new emerging risks process. After the first quarter of the year the focus shifted towards embedding the framework throughout the business.

Principle 5 – Remuneration

Promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

Setting remuneration

The Remuneration Committee met five times during the year having the responsibility for reviewing the remuneration strategy and making recommendations to the Board on salary and bonuses for all staff and long term incentive plans for senior management. To support this, the Remuneration Committee sourced external independent advice throughout the year covering market trends, benchmarking, and updates on legal and regulatory issues liable to impact on decision making. Salaries of staff are aligned to the performance of the business and market conditions, with bonus driven by a combination of personal and business performance.

Policies

During the year the Remuneration Committee met the requirements of its clearly defined terms of reference, which included reviewing and publishing the Gender Pay Gap Report for 2019, other highlights included the introduction of a new Diversity and Inclusion Steering Committee to lead on workforce equality across the business and the significant progress made in increasing the percentage of females in senior management roles to the target of 40% set in 2018. In addition, diversity and inclusion training has been implemented for the whole of the workforce covering tools and techniques for calling out non-inclusive language and behaviours. This is planned to be delivered to the whole workforce by the end of 2020. This emphasises the approach of the Board to being an active equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability.

Principle 6 – Stakeholders

The board actively engages with its stakeholders and the following table provides a summary of how the board considered the impact on stakeholders, including discharging its duties under s.172 of the Companies Act when making decisions.

Key stakeholder groups:

- Our shareholders **(A)**
- Our Customers **(B)**
- Our People **(C)**
- Our Regulators **(D)**
- Our Suppliers **(E)**
- Our Brokers **(F)**

Strategy and Company Performance		
Business Plans (A) (B) (C) (F) - Reviewed performance against the 5 year business plan. - Considered the 2020-2022 business plan including strategic assessment and external assurance.	**Strategic Process and KPIs (A) (B) (C) (F)** - Discussed and set the KPIs across the business and assessed progress against strategic objectives throughout the year. - Considered strategic initiatives to grow and develop in 2020 as part of the group. - Reviewed the balanced scorecard on a regular basis, which included customer and workforce metrics.	**Allianz Joint Venture (A) (B) (C) (D) (E)** - Considered the impacts on workforce of delivering the separation and exit of the business. This included planning for the impacts of the L&G business during the transition period. - The Board received regular updates from the programme team and provided substantive challenge in ensuring risks were effectively managed taking account of workforce, customer and supplier impacts. - The impacts for maintaining customer service were paramount to decision making by the Board, as seen through the detailed discussions around IT cut-over planning. - The Board regularly monitored employee engagement and customer satisfaction scores. - Supplier contracts were reviewed in detail and reported to the Board on a regular basis. This included contract renewals over a specified limit for Board approval. - The regulator was kept updated on progress with regular meetings with the Chair, SID, CEO, CFO and CRO. - See page 10 for more information with regard to the appointment of a Corporate Responsibility Director.
Trading Updates (A) (B) (E) (F) - Considered the trading performance from both the Broker and Direct business. - Reviewed market analysis. - Considered the impact of the business plan, strategy and costs on the Groups' trading results.		

Financial updates		
Budget (A) (B) (C) (E) - Regularly considered performance against the 2018/2019 budget - Agreed the budget for the group for 2019/2020 having considered the impact on long-term performance, employee perception and considerations of Allianz who is the sole shareholder of the business in 2020.	**Costs (A) (B)** - Control of expenses has been a focus for management during a period of significant change with the projects to deliver the transfer of the business to Allianz. - Focus on investment in business intelligence platforms to deliver future efficiency benefits.	**Dividend Payments (A)** - Considered and recommended the Dividend payments for the shareholders of the joint venture.
	Ogden Discount Rate (ODR) (A) (D) Considered the implications of Ogden on performance and the dividend.	

Governance		
Board Training Programme (A) (B) Agreed a training programme at both Board and Board Committee level for 2019/2020 covering a range of topics such as: - Premium finance - IFRS17 - Progress on GDPR - Home insurance - Data strategy - Periodical Payment Orders (PPO) and Reinsurance	**Board Effectiveness and Action Plan and Evaluation (A) (B)** - Reviewed the progress made against the 2018/2019 effectiveness action plan. - Decision taken not to proceed with a Board Effectiveness Review in 2019/20. Reason why: Change in Ownership impacting composition, structure and succession.	**Adoption of the Wates Principles for Large Private Companies (A) (B)** - The Board adopted the Wates Principles in January 2019.
Board Succession and Diversity (A) (B) (C) (D) - Board succession was addressed through the Board composition for the new structure in 2020. - Diversity was a consideration in the appointments to the new Board for 2020.	**Regulatory Engagement (A) (D)** - Discussed the feedback from the regular visits with the Regulators made by the Chair, SID, CEO, CFO and CRO to discuss LVGIG's strategy, risk frameworks and the progress of the joint venture. - Invited the PRA to attend a Board meeting to discuss their expectations and considered the PRA's observations in discussion at the Board.	**Customer & Supplier Engagement (B))(E)(F)** - The Board are updated regularly on the relationship with customers through the MD Direct, MD Broker and CEO Update reports (each Board). These include reviews of customer insight, complaints management, Net Promoter Scores and surveys. - Customer metrics are included on Balance Scorecard – NPS; and Brand - YouGov Likelihood to Recommend – Customers; Direct Self Service (Customers registered) -

Governance (continued)		
		Customer & Supplier Engagement (B))(E)(F) (continued)
		- The Board have appointed management to foster a number of partnerships and relationships with Insurance Aggregators, Brokers, Reinsurers and Suppliers. These relationships are managed on a day to day basis by various relationship teams, with daily contact with key suppliers and Brokers. These are monitored through the Broker NPS, renewal rates, supplier feedback and the willingness of suppliers to do business with the Group. - The Board also has oversight of the Customer Conduct Committee, which reviews complaints, submitted to the Financial Ombudsman.

Workforce Engagement (C)

Throughout 2019 we focused a significant amount of time on creating an environment where our employees no matter their background, felt included and were able to succeed, and also ensuring that as a company we continue to operate in an ethical, environmentally friendly and sustainable manner.

To achieve this, we appointed a new Corporate Responsibility Director who is responsible for delivering the strategy. Our progress in this area was also recognised as we were awarded 16th place in the Inclusive top 50 UK Employers List in 2019.

- A plan for direct engagement of the Board with the workforce, over and above current engagement methods employed, was reviewed and will be developed in 2020 as part of the new Allianz structure.
- An employee consultation forum is in place and support has been provided to enable this forum to become the main vehicle for Board and workforce direct engagement moving forward.
- Workforce engagement scores were reviewed regularly by the Board.
- Talent and succession planning was reviewed by the Board in 2019.
- Transformation Academy and Apprenticeships in place providing opportunities for employees to re-train for digital skill sets. There are currently 70 apprenticeships increasing to 160 by Q2 2020, covering digital and data science.
- Collaboration with Bristol University with two data scientists recruited and two data engineers to be based at their campus, with further growth planned in 2020.

On behalf of the Board of Directors

S Treloar
Director
16 April 2020

DIRECTORS' REPORT

As permitted by section 414C(11) of the Companies Act 2006, certain information is not included in the Directors' Report because it has instead been shown in the Strategic Report. This information is:

- Results and dividends;
- Principal activities of the Company;
- Business review and future prospects;
- Principal risks and uncertainties.
- Post Balance Sheet events.

1. Directors and their interests

The present members of the Board and the members who were in office during the year and up to the date of signing the financial statements are listed on page 3.

2. Parent company

The Company is a wholly owned subsidiary of Allianz Holdings plc. The ultimate parent company is Allianz SE ('AZ SE'), a European multinational financial services company headquartered in Munich, Germany.

During 2017, the then intermediate holding company, LV Capital plc sold a 49% stake in LVGIG to Allianz Holdings plc, with the final 51% stake in LVGIG being sold to Allianz Holdings plc on 31 December 2019.

3. Employees

The Company did not directly employ any staff during 2019. Instead it utilised the staff of LVGIG and premises of LVFS in carrying out its activities. Staff costs and the cost of premises were recharged from LVGIG through a management charge. In addition some services have been provided by Allianz SE where services have transitioned from LVFS.

4. Directors' indemnity statement

The directors have the benefit of an indemnity which constitutes a "qualifying third party indemnity provision" as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. LVFS also purchased and maintained throughout the year on behalf of its subsidiaries Directors' and Officers' Liability Insurance in respect of the Company and its Directors. It is available for inspection at the registered office of the Company details of which are provided on page 3.

5. Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

5. Directors' responsibilities statement (continued)
The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

6. Directors confirmations
In the case of each Director in office at the date of the Directors' report is approved:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed by order of the Board

Steve Treloar
Director

16 April 2020

Report on the audit of the financial statements

Opinion

In our opinion, Liverpool Victoria Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

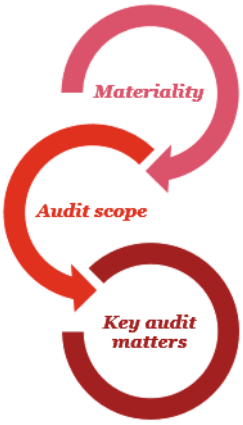
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 12 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Overall materiality: £11.9 million (2018: £11.7 million), based on 1% of Gross Written Premiums (GWP) of the combined continuing and discontinued operations.

We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations, no scoping by location is performed.

The valuation of gross general insurance claims liabilities (£0.9bn (2018: £1.0bn))

The valuation of investment in Highway Insurance Group Limited (£332m (2018: £332m))

The impact of COVID-19 subsequent event on the measurement of assets and liabilities, and the accompanying financial statement disclosures

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, 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 financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Prudential Regulation Authority's regulations and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to increase revenue or reduce expenditure of the Company and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance claims liabilities and impairment of the Company's investment in Highway Insurance Group Limited. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing register, including the quality and results of management's investigation of such matters;
- Reviewing correspondence between the Company and the Prudential Regulation Authority (PRA) and Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant Board and meeting minutes including those of the Risk Committee and the Reserving Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of general insurance claims liabilities and the impairment in Highway Insurance Group Limited described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations such as a credit to revenue and debit to the balance sheet (other than to expected accounts which include debtors and cash), which may be indicative of the overstatement or manipulation of revenue or a credit to operating expenses and a debit to the balance sheet (other than to expected accounts), which may be indicative of the understatement of expenses; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
The valuation of gross general insurance claims liabilities (£0.9bn (2018: £1.0bn)) *Refer to page 38 (accounting policies) and page 71 (notes to the financial statements)*	Our work to address the valuation of the general insurance claims liabilities was supported by our in-house non-life actuarial specialists, and included the following procedures: • We tested the completeness and accuracy of claims data used in the determination of the liabilities; and • We performed independent re-projection testing over 55% of claims liabilities, methodology and assumptions reviews over a further 28% and key indicator checks over the remaining 17%. We

Key audit matter	*How our audit addressed the key audit matter*
The Company financial statements include liabilities for the estimated cost of settling general insurance claims. These are included within the insurance contract liabilities. We focused on this area due to the significance of these liabilities to the Company's Statement of Financial Position and because of the inherent subjectivity of their valuation. In particular, we focused on: • The completeness and accuracy of claims data used to estimate the claims liabilities, and the consistency in setting case estimates; • Whether any changes to the underlying risk profile of the policies written (for example, the concentration of younger drivers or the increase in keyless cars) are appropriately reflected in the estimation of claims liabilities; • The methodologies and assumptions used in estimating the costs of claims for general insurance products (mainly motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and • Whether any trends in the underlying claims experience, whether driven by internal or market level factors, have been appropriately reflected in the estimate of future claims costs.	assessed whether the relevant data source selected by management was appropriate for use in the actuarial estimate of the contracted liabilities. Specific areas of testing: **Completeness of claims and consistency of case estimates** We tested the reconciliation of source claims data to that used in the actuarial modelling process at 30 September 2019 and again at 31 December 2019. Utilising the support of our own claims expert we tested a sample of claims to determine whether they were being assessed on a consistent basis to reserving philosophies observed both across the Company and in prior years. For a sample of case estimates, we obtained evidence they were appropriately reflecting supporting information held on case files. **Consistency of risk exposure** We assessed management's assertion that there has been no significant changes in the risk profile for material lines of business by inspecting their analyses, discussing claims trends, examining the characteristics behind claims development, and utilising our own independent trend analyses. **Methodologies and assumptions** We carried out a substantial amount of our work on the claims liabilities at 30 September 2019, rolling forward our assessments to the year-end. We performed independent re-projection testing by independently selecting our own methodology and assumptions to estimate the reserves for some of the most significant components of the claims liabilities. We evaluated the methodology and assumptions used by management to estimate the most judgemental components of the claims liabilities. We took into account any changes to the types of risks underwritten by the business, as well as changes in claim patterns influenced by machine learning tools introduced during the year, which could increase the level of uncertainty and judgement in the estimates. Particular focus was also given to the change in Ogden rate from -0.75% to -0.25% announced in July 2019, impacting certain types of personal injury claims. We performed testing over source data on a sample basis to be able to conclude on the revised reserves resulting from this change in assumption. For lower risk categories of reserves we considered trends in various indicators such as paid to incurred ratios, incurred to ultimate ratios and other Key Performance Indicators ("KPIs").

Key audit matter	*How our audit addressed the key audit matter*
	Where we felt it was appropriate, we performed independent calculations to quantify the impact of differences between management's actuarial analysis or assumptions and those which we would have conducted or selected ourselves based on our understanding of market trends and the particular circumstances of the group. **Trends in the underlying claims experience** We considered the run-off of prior year liabilities, the sensitivity of the liabilities to alternative methods and assumptions and, where relevant, industry benchmarking. We also examined trends in ratios driven by internal or market level factors, including those between the initial case estimates and the final costs of settlement. *Based on the work performed, we found the methodology and assumptions used in estimating the costs of claims were appropriate and supported by the evidence we obtained. Furthermore, no evidence was identified to suggest claims data was not complete and accurate.*
Valuation of investment in Highway Insurance Group Limited (£332m (2018: £332m)) *Refer to page 36 (accounting policies) and page 68 (notes to the financial statements)* The Company has a 100% investment in Highway Insurance Group Limited, which in turn owns 100% of the share capital of Highway Insurance Company Limited. Highway Insurance Group Limited has no trading activities of its own and therefore is 100% supported by the value generated by Highway Insurance Company Limited. Highway Insurance Company Limited sold its renewal rights to its commercial lines of business in December 2017, which made up a significant portion of its premium revenue and acquired at the same time rights to renew personal lines business from Allianz Insurance Plc, changing the composition of business income. A capital injection was required in 2018 and following low levels of profitability in recent years, Highway Insurance Company and has become loss making in 2019. This casts doubt over the recoverable amount of the Company's investment in these subsidiaries. The impairment test is performed by comparing the value in use of Highway Insurance Group Limited to the value of Liverpool Victoria Insurance Company Limited's investment in compliance with International Accounting Standard 36. The key sensitivities in this approach are the growth rate, underwriting and expense ratios and discount rate assumed in the model.	Our work to address the valuation of the Company's investment in subsidiaries included the following procedures: • We have analysed management's impairment review, in particular the five year cash flow forecasts they have developed to ascertain a value in use for the Highway Insurance Company Limited business. We have assessed management's ability to forecast by comparing the prior year forecast results to the current year actuals for income and expenses. Additionally, we have assessed the growth rate and discount rate applied to the cash flows to determine if they reflect the growth prospects of the business and the cost of the capital that applies to the business. We have challenged management over key assumptions of revenue growth, and underwriting and expense ratios. Furthermore, we have performed sensitivity analysis over these key assumptions to determine the impact of any errors in management assumptions; and • Considered the appropriateness of the relevant disclosures. *Based on the work performed, we consider it reasonable not to record an impairment in the current year. We note there is increased judgement and subjectivity given the relatively recent transfer in of Allianz's personal lines of business.*
Impact of COVID-19 subsequent event on the measurement of assets and liabilities, and the accompanying financial statement disclosures	We assessed management's approach to the impact of COVID-19 on the company's financial statements by performing the

Key audit matter	*How our audit addressed the key audit matter*
Refer to page 77 (notes to the financial statements) As disclosed in Note 38, 2020 has begun with the outbreak of a new strain of Coronavirus (COVID-19) in China, resulting in a global pandemic causing significant economic disruption, including both insurance and investment markets. The situation as at 31 December 2019 was that a limited number of cases of an unknown virus has been reported to the World Health Organisation. Management has concluded that the subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019 and it is, therefore, a non-adjusting event. Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. The financial statement line items most impacted by the event would be available for sale financial assets and insurance claims liabilities. However, events after the reporting date can provide additional information about the uncertainties that existed at the reporting date. Subsequent to the year-end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: • Operation of a risk management framework to ensure a sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans for certain management actions if the company falls outside its risk appetite; • Monitoring the impact on individual classes of business including claims levels; • Frequent monitoring of the company's solvency coverage ratio including investment values; and • Actively managing the company's capital and liquidity position. Through this management has concluded that the company is in a stable solvency position, expects to continue to meet its capital requirements through this pandemic and continues to be a going concern. This assessment requires significant management judgement and the consideration of a range of factors that may impact the Company.	following procedures: • Assessed management's conclusions that this is a non-adjusting post balance sheet event by considering the timing of the development of the outbreak in the UK and across the world; • Our testing included procedures designed to identify whether information that arose after the balance sheet date had been inappropriately used to revise the measurement of investments and insurance claims liabilities through late journal entries; • Evaluated management's stress and scenario testing and challenged management's key assumptions and estimates used in estimating the impact of COVID-19 on the company. This included consideration of management's assessment of the risks facing the company including liquidity risk, asset credit risk and operational matters, taking into account the consistency of the judgements and estimates with other available information and our understanding of the business; • Obtained management's latest estimated Solvency capital position and liquidity forecasts, and evaluated these for consistency with available information and our understanding of the business; and • Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the company based on our audit. *Based on the work performed we did not find any evidence to suggest that management's assessment of the impact of COVID-19 on the going concern basis of accounting or the disclosures of the potential impact in the financial statements were inappropriate.*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Recognising that this trading entity is material to the Liverpool Victoria General Insurance Group, it was audited by the Group engagement team. In establishing the overall approach to the Group audit, we determine the type of work that we needed to perform at each entity to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole and the individual entity level financial statements.

In addition to the Group's head office in Bournemouth, we visited three other locations for the purposes of the Company audit. Our testing at those other locations primarily focused on the valuation of general insurance claims liabilities.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£11.9 million (2018: £11.7 million).
How we determined it	1% of Gross Written Premiums (GWP) of the combined continuing and discontinued operations.
Rationale for benchmark applied	Gross Written Premiums (GWP) is a key metric used by management and stakeholders to assess the performance of the entity, it has been relatively stable year on year and revenue is a generally accepted auditing benchmark. Furthermore, in our professional judgement, we consider that using gross written premiums as a benchmark gives a level of materiality that is appropriate given the size and risk profile of the business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £590,000 (2018: £585,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 18 and 19, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 29 May 2008 to audit the financial statements for the year ended 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2008 to 31 December 2019.

Andrew Hill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 April 2020

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTINUING OPERATIONS	**Note**	**2019 £000**	2018 £000
Insurance contract premium revenue	5	**1,144,209**	1,092,197
Insurance contract premium ceded to reinsurers	5	**(264,708)**	(255,997)
Net premium revenue		**879,501**	836,200
Investment income	6	**34,215**	39,809
Net losses on investments	7	**(1,236)**	(25,005)
Other income	8	**58,627**	51,323
Total income		**971,107**	902,327
Insurance claims and loss adjustment expenses	9	**(827,454)**	(708,766)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**163,496**	120,729
Net insurance claims		**(663,958)**	(588,037)
Other operating and administrative expenses	10	**(228,469)**	(211,539)
Total claims and expenses		**(892,427)**	(799,576)
Profit before tax		**78,680**	102,751
Income tax expense	14	**(12,409)**	(17,324)
Profit for the year from continuing operations		**66,271**	85,427
Profit/(Loss) for the year from discontinued operations	11	**6,059**	(14,345)
Profit for the year attributable to owners of the parent		**72,330**	71,082
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	33	**19,847**	(7,876)
Change in fair value of available for sale financial assets transferred to profit or loss	33	**(772)**	-
Income tax relating to these items	33	**(3,243)**	1,339
Other comprehensive income/(expense) for the year, net of tax		**15,832**	(6,537)
Total comprehensive income for the year		**88,162**	64,545

Balances relate to both continuing and discontinuing business, with the discontinued operations being shown on one line.

The notes on pages 31 to 78 are an integral part of the financial statements.

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

			Attributable to equity holder of the Company				
			Share capital	**Available -for-sale reserve**	**Retained earnings**	**Capital reserve**	**Total Equity**
	Note		**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2019	**(Restated)**		**384,908**	**(6,537)**	**349,685**	**2,569**	**730,625**
Profit for the year	32		**-**	-	72,330	-	72,330
Items that may be reclassified to profit or loss							
Fair value gains on AFS investments	33		**-**	19,847	-	-	19,847
Tax on these items	33		**-**	(3,243)	-	-	(3,243)
Losses on AFS investments			**-**	(772)	-	-	(772)
Total comprehensive income for the year			**-**	**15,832**	**72,330**	**-**	**88,162**
Dividends paid & payable	31	32	**-**	**-**	(90,731)	(2,569)	(93,300)
			-	**-**	**(90,731)**	**(2,569)**	**(93,300)**
Balance at 31 December 2019			**384,908**	**9,295**	**331,284**	**-**	**725,487**

			Attributable to equity holder of the Company				
			Share capital	Available-for-sale reserve	Retained earnings	Capital reserve	Total Equity
	Note		£000	£000	Restated £000	£000	Restated £000
Balance at 1 January 2018			384,908	-	278,603	67,064	730,575
Profit for the year	32		-	-	71,082	-	71,082
Fair value losses on AFS investments			-	(7,876)	-	-	(7,876)
Tax on these items			-	1,339	-	-	1,339
Total comprehensive income for the year			-	(6,537)	71,082	-	64,545
Dividends	31		-	-	-	(64,495)	(64,495)
			-	-	-	(64,495)	(64,495)
Balance at 31 December 2018			384,908	(6,537)	349,685	2,569	730,625

The notes on pages 31 to 78 are an integral part of the financial statements.

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	**2019** £000	2018 (Restated) £000
Assets			
Intangible assets	15	**17,072**	17,267
Investments in group undertakings	17	**332,112**	332,112
Prepayments and accrued income	18	**31,166**	28,008
Deferred acquisition costs	16	**49,763**	56,062
Financial assets			
- Fair value through profit or loss assets	19(a)	**-**	410,780
- Available for sale financial assets	19(b)	**910,906**	714,829
Derivative financial instruments	20	**-**	815
Loans and other receivables	22	**157,451**	174,603
Reinsurance assets	23	**270,543**	299,187
Insurance receivables	24	**245,847**	219,580
Deferred tax asset	27	**-**	191
Cash and cash equivalents (excluding bank overdrafts)	25	**396,822**	192,586
Total assets		**2,411,682**	2,446,020
Liabilities			
Insurance contract liabilities	26	**1,522,679**	1,568,647
Current tax liability	21	**5,205**	6,399
Deferred tax liability	27	**3,173**	-
Insurance payables	28	**11,178**	19,538
Trade and other payables	29	**143,960**	120,811
Total liabilities		**1,686,195**	1,715,395
Equity			
Share capital	30	**384,908**	384,908
Available-for-sale reserve	33	**9,295**	(6,537)
Capital reserve	31	**-**	2,569
Retained earnings	32	**331,284**	349,685
Total equity		**725,487**	730,625
Total liabilities and equity		**2,411,682**	2,446,020

The notes on pages 31 to 78 are an integral part of the financial statements.

These financial statements on pages 27 to 78 were approved by the Board of Directors on 09 April 2020.

Signed on behalf of the Board of Directors

S Treloar
Director
16 April 2020

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash and cash equivalents at 1 January	25	**181,724**	354,865
Cash flows arising from operating activities			
Cash generated from operations	34	**(1,332)**	49,852
Net decrease in investments at fair value through profit or loss		**409,550**	544,753
Net increase of available for sale securities		**(176,257)**	(722,705)
Dividends received		**3,200**	3,689
Intragroup dividend received	6	**11,000**	8,000
Interest received		**52,497**	54,610
Group relief recovered/(paid)	21	**-**	(3,773)
Income tax paid	21	**(14,877)**	(12,072)
Net cash generated from/(used in) operating activities		**283,781**	(77,646)
Cash flows from investing activities			
Investment in subsidiaries	17	**-**	(31,000)
Net cash generated from/(used in) Investing activities		**-**	(31,000)
Cash flows from financing activities			
Dividends paid to LV General Insurance Group Limited	31	**(80,300)**	(64,495)
Net cash used in financing activities		**(80,300)**	(64,495)
Net increase/(decrease) in cash and cash equivalents		**203,481**	(173,141)
Cash and cash equivalents at 31 December	25	**385,205**	181,724

The notes on pages 31 to 78 are an integral part of the financial statements.

Cash flows from discontinued operations are disclosed within Note 11.

1. General information

The Company is a private company limited by shares and incorporated and domiciled in England, United Kingdom. The Company underwrites general insurance risks, including motor and household risks. All contracts of insurance are written in the United Kingdom or the Channel Islands.

2. Accounting policies

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee as published by the International Accounting Standards Board and adopted by the European Union ('EU'). In addition the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. As such, the accounting for insurance contracts is in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006 and withdrawn in December 2015. The Company continues to apply this Statement of Recommended Practice.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value. Items included in the financial statements are measured using the currency of the primary economic environment (the 'functional currency') which is sterling. Unless otherwise noted, the financial statements are presented in sterling (the 'presentation currency').

The preparation of the financial statements in conformity with IFRS requires the use of estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The principal accounting policies adopted are listed below. These policies have been consistently applied to all years presented, unless otherwise stated.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

These financial statements have been prepared on a continuing basis, discontinued operations are presented separately.

Going concern

We are confident in the Company's ability to continue as a going concern. The business is well placed in managing the principal risks and uncertainties, has a strong financial, trading and capital position and is owned by one of the largest property and casualty insurers in the world.

There is undeniably significant uncertainty surrounding the impact of COVID-19 on the business. However, an assessment by line of business indicates that solvency can be maintained above regulatory requirements and there is liquidity to support operations.

Business continuity activity to move to home working has been put in place with a focus on maintaining acceptable levels of service for claims and existing customer renewals without material customer detriment. The Company continues to work closely with its suppliers to understand and manage the impact of COVID-19 on our supply chain.

2. Accounting policies (continued)

Going concern

The COVID-19 development has led to significant reductions in market values in the early part of 2020 and heightened volatility. Stock markets have fallen sharply, and the Bank of England and government have taken unprecedented steps in response with base rates reduced to a historic low of 0.1% and broad financial support measures have been introduced to try to support the economy. It is anticipated that the UK will enter a period of recession in 2020 due to this economic shock.

Management are regularly assessing the impact on the financial, liquidity and solvency position with actions in place to respond where appropriate. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

The Board will continue to monitor the situation closely and take appropriate action as necessary.

Consolidation

The financial statements present information about the Company as an individual undertaking and not about its group. The Company has not prepared Group financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006, as it is a subsidiary undertaking of an EEA parent, and is included in the consolidated financial statements of the ultimate parent Allianz SE.

Earned premiums

General insurance premiums written reflect business coming into force during the year. Written premiums include new business premiums plus an estimate is included for premiums due from intermediaries. Net earned premiums are arrived at following deductions for premiums payable to reinsurers and deferral of unearned premium. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of Financial Position (‘SOFP’) date. Unearned premiums are calculated on a time apportionment basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Investment income

Investment income includes interest from investments at fair value through profit and loss (‘FVTPL’), dividends and interest from AFS investments and interest on loans and receivables. Dividends are included on an ex-dividend basis. Interest receivable from investments at FVTPL is accounted for on an accruals basis. Interest on AFS debt instruments and loans and receivables is calculated using the effective interest method. Investment expenses are accounted for as incurred.

Realised gains or losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original, amortised or impaired cost. Realised gains and losses are recognised in the Statement of Comprehensive Income (‘SOCI’) when the sale transaction occurred. Realised gains or losses associated with AFS investments include the reclassification of the cumulative gain or loss recorded within the AFS reserve in equity.

Unrealised gains and losses

Unrealised gains and losses on investments at FVTPL represent the difference between the valuation of fair value assets at the SOFP date and their valuation at the last SOFP date or, where purchased during the year, the purchase price. A reversal is made of previously recognised gains or losses in respect of disposals made during the year.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the SOFP date. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses are dealt with in that part of the SOCI in which the underlying transaction is reported.

2. Accounting policies (continued)

Income tax expense

The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses and is recorded in the SOCI represents the current year corporation tax charge. Corporation tax is charged on trading profits arising in the year.

- Current income tax

Current income tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the SOFP date.

- Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the SOFP date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Revenue from contracts with customers

At 31 December 2019 the Company had an immaterial amount (2018: immaterial) of revenue that is relevant for this standard.

The Company's previous accounting policy under IAS 18 for fee and commission income to recognise revenue over time as the services are provided is consistent with the requirements of IFRS 15, and accordingly no adjustments or restatement of prior periods have been necessary.

2. Accounting policies (continued)

Financial assets

Investments are classified in the following categories: financial assets or financial liabilities at FVTPL, loans and other receivables and AFS financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

During 2018 management entered a new investment strategy whereby all future investments in debt and other fixed income securities should be classified as AFS. The Company undertook a sale and purchase program during 2018 to dispose of the majority of its existing debt and other fixed income securities that were classified as FVTPL and replace these holdings with new investments classified as AFS. The remaining debt and other fixed income securities recognised at FVTPL either matured or sold during 2019.

The IFRS “fair value hierarchy” levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 4.

In addition to this the Company sold its entire Equity portfolio thereby having no FVTPL invested assets held at 31 December 2019.

Financial assets and liabilities at fair value through profit or loss

This category has two sub categories:
– Financial assets and liabilities held for trading; and
– Those designated at FVTPL at inception.

Derivatives are classified at FVTPL as they are held for trading.

Financial assets designated at FVTPL are part of a group of financial assets that are managed and their performance evaluated and reported to the board on a fair value basis in accordance with the documented investment strategy. These assets are measured at market prices, or prices consistent with market ratings should no price be available. Day one gains are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Financial assets at FVTPL include listed and unlisted investments, units in authorised unit trusts and other investments.

Available for sale financial assets

AFS investments include listed debt securities comprising Corporate Bonds, Government Bonds Supranationals and Certificates of Deposits. AFS investments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices.

AFS investments are initially recognised at fair value plus directly related transaction costs. They are subsequently carried at fair value. Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the Statement of Comprehensive Income, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders’ equity (AFS reserve) until disposal. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Statement of Comprehensive Income as ‘net realised gains and losses’.

2. Accounting policies (continued)

Impairment of financial assets

The carrying values of financial assets not carried at FVTPL are reviewed at each SOFP date. If the carrying value of a Trade receivable or Loans and Other receivable is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the SOCI.

When a decline in the fair value of a financial asset classified as AFS has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value.

If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed.

Reinsurance assets

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on the insurance contracts issued by the Company are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insured and the insurer. Reinsurance assets are the net contractual rights arising from cash flows due from and to reinsurance companies for ceded insurance liabilities. Amounts are estimated in a consistent manner with the gross reserves of the underlying policies and in accordance with the relevant reinsurance contract.

An impairment review is performed at the SOFP date. Impairment occurs when there is evidence that the Company will not recover outstanding amounts under the contract, such losses being recorded immediately in the SOCI.

Amounts recoverable from or due to reinsurers

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

2. Accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired book of business at the acquisition date and is included in intangible assets. Goodwill is reviewed for impairment at the end of the first full year of acquisition. Thereafter, it is tested at each SOFP date for impairment against the recoverable amount (being the higher of value in use or fair value less cost) of the relevant cash generating unit and carried in the SOFP at cost less accumulated impairment losses.

Other intangibles

Where an acquisition takes place that gives access to existing customers or distribution channels, then the present value of these is recognised as an intangible asset. The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles is determined by reference to acquired business, considering factors such as the remaining terms of agreements, the normal lives of related products and the competitive position, and lies within the range of 10 to 20 years on a straight line basis.

Investments in Group undertakings

The subsidiaries are held in the Company's SOFP at cost less any provision for impairment. An assessment of the realisable value is made at the year end and, if the Directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

Deferred acquisition costs

The proportion of the costs of acquiring new general insurance business which relate to unearned premiums are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues.

Acquisition costs comprise all allowable costs incurred in writing new contracts. Deferred acquisition costs ('DAC') are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type.

DAC is tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the SOCI.

DAC is all due within one year for both 2018 and 2019. Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses.

Liability adequacy test

At each SOFP date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the SOCI and an unexpired risk reserve established.

2. Accounting policies (continued)

Collateral

Collateral is received or pledged against derivative contracts in the form of cash collateral and non-cash collateral.

a) Cash collateral

Cash collateral received, which is not legally segregated from the Company, is recognised as an asset with a corresponding liability for its repayment in the SOFP.

Cash collateral pledged, which is legally segregated from the Company, is derecognised from cash and cash equivalents and a corresponding asset for its return is recognised in the SOFP.

b) Non-cash collateral

Non-cash collateral received against derivative contracts where the counterparty is not in default, that is neither sold nor repledged, is not recognised in the SOFP. Non-cash collateral pledged against derivative contracts where the Company is not in default is not derecognised from the Statement of Financial Position and remains within the appropriate asset classification.

Loans and other receivables

Loans and other receivables are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method. Loans include reverse repurchase agreements and represent the consideration paid to the borrower. Other receivables are recognised when due.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and include amounts due from or to policyholders, agents, brokers and reinsurers. Amounts due from policyholders and brokers include outstanding premiums where the policyholders have elected to pay in instalments. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Insurance receivables and payables are initially recognised at fair value and subsequently held at amortised cost. Where there is objective evidence that the carrying value of insurance receivables is impaired then the impairment loss will be recognised in the SOCI.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

2. Accounting policies (continued)

Claims and insurance contract liabilities

Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years. Where applicable, deductions are made for recoveries from other parties. Certain insurance contracts permit the company to salvage recoveries through the sale of property acquired in settling a claim. The Company may also have the right to subrogation recoveries, where third parties are pursued for the payment of costs. Salvage recoveries are recognised at the amount that can be reasonably recovered from the disposal of the property. Subrogation reimbursements are recognised at the amount that can be reasonably expected to be recovered from action against the liable third party.

A provision is made for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not reported. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries. However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Provisions are adjusted at the SOFP date to represent the expected outcome. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share of the provision.

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of Periodic Payment Orders (‘PPO’s), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the SOCI in future years.

Provisions

Provisions are recognised where there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where some or all of a provision is expected to be reimbursed it is recognised as a separate asset when the reimbursement is certain.

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The expense relating to provisions is presented in the SOCI.

Trade and other payables

Trade and other payables are recognised as they fall due. They are initially recognised at fair value and subsequently held at amortised cost.

Trade and other payables include accruals for levies which are recognised when the obligating event of sales of insurance premiums occurs. Accruals are made in accordance with the requirements of the relevant levy legislation.

2. Accounting policies (continued)

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

Dividend distribution
Dividend distribution to the Company's equity shareholder is recognised in equity in the period in which the dividend is paid.

Restatement
The Company continues to choose to restate balances for prior periods where it considers such presentational restatement provides a clearer view of the performance in the year to the user of the financial statements.

In preparing the accounts this year the basis for accruing the MIB levy has been adjusted, to fully allow for the liability attaching to all policies written. Past practice was to provide for the amount in respect of the exposure up to the accounting date, and therefore excluded exposure for periods after the accounting date on policies currently in force.

This change has therefore meant a re-statement of the 2018 brought forward MIB levy accrual. Retained earnings at 31 December 2018 have been reduced by £5,961,000 from £355,646,000 to £349,685,000. Accruals and deferred income at the same date have increased by £7,359,000 from £33,823,000 to £41,182,000, with the total for Trade and other payables increasing by the same amount from £113,452,000 to £120,811,000. The Corporation tax liability at the same date reduced by £1,398,000 and from £7,797,000 to £6,399,000. Opening retained earnings at 1 January 2018 have also been reduced by £5,961,000 from £284,564,000 to £278,603,000.

Discontinued operations

A discontinued operation is a component of the business that has been disposed of or is classified as held for sale and that represents a separate major line of business, or is part of a single co-ordinated plan to dispose of such a line of business. The results of discontinued operations are presented separately in the SOCI. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on completed sales.

2. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES

a) New and amended standards adopted

The following new standards have been adopted by the European Union ('EU') for accounting periods beginning on or after 1 January 2019, and have been adopted by the Company:

IFRS 16
'Leases' has been adopted on 1 January 2019. The Company has no leases recognised under IAS 17 and will apply the practical expedient within IFRS 16 to grandfather the definition of a lease on transition.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

b) Amendments to standards

Amendment to IFRS 4 'Insurance contracts': Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'
The amendment provides two approaches that can be applied by eligible insurers to address concerns arising from the different effective dates of IFRS 9 and IFRS 17 'Insurance Contracts'; the overlay approach and the temporary exemption from IFRS 9 until adoption of IFRS 17. The Company is an eligible insurer and has taken the temporary exemption from IFRS 9.

As an insurer that has elected to apply the temporary exemption from IFRS 9, information is disclosed below regarding compliance with the criteria to apply the temporary exemption; and categories of financial asset to facilitate comparability with entities applying IFRS 9.

Compliance with the criteria for the temporary exemption from IFRS 9
The IFRS 4 amendment adopted in the reporting period permits insurance entities which meet the predominance ratio test to have a temporary exemption from IFRS 9 where this standard has not yet been adopted. The predominance ratio test is required to be performed at the reporting entity level, using the annual reporting date that immediately precedes 1 April 2016 (i.e. 31 December 2015). Reassessment of the predominance ratio test is required when an entity begins or ceases to perform an activity that is significant to its operations, including terminating a business line.

2. Accounting policies (continued)

b) Amendments to standards (continued)

The predominance ratio test of an entity's insurance liabilities against its total liabilities includes two tests:
1) The carrying amount of its liabilities arising from contracts within IFRS 4's scope must be significant compared to the total carrying amount of all of its liabilities; and
2) The carrying amount of the insurer's liabilities connected with insurance compared with the total carrying amount of all of its liabilities must be above a threshold. Liabilities connected with insurance include IFRS 4 liabilities, Investment contract liabilities measured at FVTPL applying IAS 39 and other liabilities that are connected to these insurance and investment contracts.

The threshold for liabilities connected with insurance compared with total liabilities is:

- Greater than 90%, or
- Greater than 80% but less than or equal to 90% and the entity provides evidence that it does not have a significant activity that is unrelated to insurance.

The Company met the criteria to apply the temporary exemption from IFRS 9 upon initial performance of the predominance ratio test at 31 December 2015. The carrying value of liabilities within IFRS 4's scope at 31 December 2015 was significant at 97% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance. On 29 December 2017 the Company sold the renewal rights associated with its Commercial Lines business to Allianz; the Commercial Lines business was a significant component of the Company's operations and as a result the Commercial Lines results were presented as a discontinued operation in the 31 December 2017 financial statements. This transaction did not impact the predominance ratio test at 31 December 2017 as only the new business renewal rights were sold. The predominance ratio test has been reassessed at 31 December 2019. The carrying value of liabilities within IFRS 4's scope at 31 December 2019 continued to be significant at 91% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance.

Disclosures associated with deferral of IFRS 9
In order to facilitate comparison with companies which have adopted IFRS 9, the following disclosures are included regarding the fair value and credit risk associated with financial assets. Financial assets with cash flows that are Solely payments of Principal and Interest ('SPPI') excluding those categorised as FVTPL due to either being managed on a fair value basis or held for trading, are disclosed separately from other financial assets.

The fair value at 31 December 2019 and the amount of change in the fair value during the reporting period of the Company's financial assets are as follows:

2. Accounting policies (continued)

b) Amendments to standards (continued)

Financial assets	Fair value at 31 December 2019 £000	Movement in fair value recognised in SOCI £000
1) Financial assets that meet the SPPI criteria and not classified as FVTPL		
Available for sale financial assets		
Debt securities	910,173	(19,819)
Loans and other receivables (short-term)*	157,451	-
Insurance receivables (short-term)*	240,473	-
Total	**1,308,097**	**(19,819)**
2) All Other financial assets		
Financial assets at fair value through profit or loss	-	6,175
Derivative financial instruments	-	(8,154)
Total	**-**	**(1,979)**

*The carrying amount of the financial asset measured applying IAS39 is deemed to be a reasonable approximation of its fair value.

The following table represents the Group's exposure to credit risk on financial assets that meet the SPPI criteria:

	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Available for sale financial assets						
Debt securities	150,677	193,597	293,682	272,218	-	910,174
Loans and other receivables (short-term)*	-	-	66,667	-	90,784	157,451
Insurance receivables (short-term)*	-	34,060	-	-	211,787	245,847
Total	**150,677**	**227,657**	**360,349**	**272,218**	**302,571**	**1,313,472**

Note: In the case of financial assets held at amortised cost, the amounts disclosed are the carrying amounts applying IAS 39, before adjusting for any impairment allowances.

The table above includes £303m of short term receivables that are not rated. The fair value of these financial assets at 31 December 2019 is equal to their carrying value.

2. Accounting policies (continued)

c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following:

IFRS 17 'Insurance contracts'
Issued in May 2017, IFRS 17 replaces IFRS 4 'Insurance contracts'. The original effective date of IFRS 17 was 1 January 2021; however the IASB has announced a deferral to 20203. . This standard provides an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The standard will have a material impact on the Company and transitioning the Company's accounting to the new standard will require significant effort. The impact of this new standard on the SOFP and the SOCI is currently being assessed.

IFRS 9, 'Financial instruments'
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The effective date was 1 January 2018, however as noted above, IFRS 9 has been deferred by the Company in order to align adoption with that of IFRS 17. In line with the proposed deferral of the IFRS 17 effective date noted above, the IASB has also proposed that the temporary exemption from IFRS 9 for qualifying insurers be extended until 1 January 2023 The impact of this new standard on the SOFP and the SOCI is currently being assessed.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3. Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies, management has made the following judgements, estimations and assumptions which have the most significant effect on the financial statements.

Valuation of general insurance contract liabilities
For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the SOFP date and the cost of claims incurred but not yet reported ('IBNR') to the Company. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of ('PPO's), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the SOCI in future years.

Significant accounting estimates and judgements – Insurance contract liabilities
The valuation of insurance contract liabilities requires management judgement in applying the appropriate accounting treatment and the use of estimates. Where the use of estimates involves management judgement, these are explained separately to judgements involving the application of accounting policies.

Significant accounting estimate - Insurance contract liabilities
The estimation of the ultimate liability arising from claims made under insurance contracts is the most critical accounting estimate for the general insurance business. For general insurance contracts estimates are made for the expected ultimate cost of claims as at SOFP date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims. In particular, motor insurance policies are exposed to claims for personal injury.

Estimation of the ultimate cost of large personal injury claims is a complex process and cannot be done using conventional actuarial techniques given they typically exhibit low frequency and high severity. Significant factors that affect the personal injuries estimation process are legislation (e.g. the Ogden discount rate used to value lump sum settlements), judicial decisions and the long delay to settlement. Due to this uncertainty it is not possible to determine the future development of personal injury claims with the same degree of reliability as with other types of claims.

3. Significant accounting judgements, estimates and assumptions (continued)

Over the last decade, there has been an increasing prevalence of PPO settlements, which have an annuity-type structure, i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in the majority of cases the claimant will request a PPO settlement. A further complexity of PPO claims is that due to the annuity-type structure of the claim payments these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Therefore, the estimation of ultimate claims cost involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities.

During 2017 the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to -0.75% p.a. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term.

On 20 December 2018 the Civil Liability Bill received Royal Assent and is thus the Civil Liability Act, with a revised Ogden Discount Rate announced at -0.25% in the summer of 2019. The Act should ensure a more proportional rate is applied to lump sum settlements for personal injury claims as well as providing a framework for future reviews of the rate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Significant judgement applied to estimate
While management believes that the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgement.

The estimation of these claims is based on historical experience projected forward. Where possible, multiple techniques are adopted to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. Estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously paid claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

Classification of the Company's contracts with reinsurers as reinsurance contracts
A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

Valuation of subsidiaries
The valuation of the subsidiary company HICO involves a significant judgement and any impairment of this subsidiary is assessed annually.

Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary's value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period, based on financial plans approved by the Directors covering a three year period, with a further two year period of projection and discounted to its present value. See further information in the Investments in group undertakings note.

4. Capital management and risk management and control

The Company maintains a capital structure which consists of a combination of equity and borrowings, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company retains capital to meet four key objectives:

(i) To ensure the Company's strategy can be implemented and is financially sustainable;
(ii) To ensure the Company's financial strength and to support the risks it takes on as part of its business;
(iii) To give confidence to policyholders and other stakeholders who have relationships with the Company; and
(iv) To comply with capital requirements imposed by its UK regulator, the PRA.

At least annually these objectives are reviewed and benchmarks are set by which to judge the adequacy of the Company's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Company. In the event that sufficient capital is not available plans would be developed either to raise additional capital through, for example, subordinated loans, or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance or a change in investment strategy. If it becomes apparent that excess capital is available to the Company above its potential needs such excess would normally be returned to shareholders.

2016 marked the beginning of the Solvency II regime, an EU imposed legislation. There are two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2019.

As at 31 December 2019, for the Annual QRT reporting to the regulator, Company disclosed surplus regulatory capital of £214,140,983 (2018: Annual & Q4 £229,217,988). The 2018 Annual result was published in the LVFS Single Company SFCR in June 2019.

The Company complied with all externally imposed capital requirements that it was subject to throughout the reporting period.

4. Capital management and risk management and control (continued)

Risk management and control

The principal types of risk, which are detailed below, have been identified and risk appetite for each of these has been set by reference to the PRA's Solvency II capital requirements.

The Company recognises the critical importance of having efficient and effective risk management systems in place and these take the form of:

- Board and Executive committees with clear terms of reference.
- A clear organisation structure with documented apportionment of responsibilities.
- A uniform methodology of risk assessment, which is embedded within all companies in the LVFS Group so that they operate within agreed tolerances and with appropriate controls in place.
- A statement of Risk Strategy and Appetite, which is reviewed annually and adopted by the Directors.
- Regular reviews of risks by senior managers, where frequency of review is determined by the potential impact of the risk and its likelihood.

Insurance risk

The Company's insurance activities are primarily concerned with the pricing, accepting and management of risks from its policyholders. In accepting risks the Company commits to paying claims and therefore these risks must be understood. The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Company's claims reserves. The risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. For general insurance contracts this is primarily represented by exposure to risks which may lead to significant claims in terms of frequency or value. These would include significant weather events, subsidence and large single claims arising from either the motor business (injury claims) or household business (liability and/or property claims). There is also a risk that the prices charged for unexpired risks to which the Company is contractually committed may prove to be insufficient to absorb the cost of the claims which they will generate and any related Deferred Acquisition Costs ('DAC'). Procedures are in place to measure, monitor and control exposure to all these risks.

Property business is exposed to catastrophic risks such as those resulting from storms or floods as well as risks such as subsidence. The Company has entered into reinsurance contracts which provide protection against catastrophic weather events.

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim (2018 : £5.0m per claim).

SME business, which has now ceased to be sold, is exposed to large individual property losses and also to liabilities arising from employment and commercial activities. The Company has entered into reinsurance contracts which provide protection against these liabilities.

In addition to the reinsurance contracts described above, the Company has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for the 2015 and prior accident years. The Company has also historically entered into a 20% Quota Share arrangement for the 2016-2018 accident years (each year treated separately). Similarly; an additional 20% Quota Share arrangement has been entered into for the 2019 accident year. Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the LVGIG Group exposure to general insurance concentration risk.

4. Capital management and risk management and control (continued)

The table below sets out the concentration of general insurance contract liabilities by type of contract:

	2019			2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**814,537**	**(236,880)**	**577,657**	845,023	(243,119)	601,904
Household	**74,418**	**(15,367)**	**59,051**	73,443	(20,019)	53,424
Travel	**2,562**	**(513)**	**2,049**	2,682	(537)	2,145
Commercial	**40,457**	**(9,143)**	**31,314**	83,322	(20,152)	63,170
Other	**2,605**	**(512)**	**2,093**	2,775	(550)	2,225
	934,579	**(262,415)**	**672,164**	1,007,245	(284,377)	722,868

The claims provision is the estimated cost of outstanding claims from expired risks. The provision is calculated largely from using the Company's own historic claims data. How much the historic claims experience will reflect future experience will be impacted by the following factors:

- Changes in actuarial processes and methodology.
- Changes in risk profile.
- Changes in underwriting, rating and policy conditions.
- Changes in legislation and regulation (e.g. PPOs, Ministry of Justice reforms, changes to the Ogden discount rate, etc.).
- Changes to internal operational processes.
- Changes in other external factors (e.g. "claims farming"/accident management firms).

It is therefore important that the impact of these items on claims development is understood. Whilst every effort has been made to ensure the claims provision appropriately allows for such changes, there remains uncertainty in the eventual outcome as a result. This uncertainty can change from year to year depending on the timing and magnitude of these items.

The Company has identified the major uncertainties surrounding the future development of claims and where appropriate these have been allowed for explicitly. An additional provision is held within the claims provision in order to cover the uncertainty around further fluctuations in claim development with a given degree of confidence.

The Company's reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions, both positively and adversely. An example of such would be a change in the Ogden discount rate. This is the discount rate set by the relevant government bodies and used by courts to calculate lump sum awards in bodily injury cases.

4. Capital management and risk management and control (continued)

Uncertainty in claims estimation is more significant for large Personal Injury claims on both a lump sum and a PPO basis, which for the latter include annually indexed payments that are typically made over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to changes in this discount benefit. Large lump sum Personal Injury claims are heavily exposed to the Ogden Discount rate.

The table below provides a sensitivity analysis of the potential impact of a change on a discounting basis for PPO claims. The sensitivities allow for a change in the single factor with all other assumptions left unchanged. Other potential risks beyond the one described in the table could have an additional financial impact on the Company.

	Increase / (Decrease) in Statement of Comprehensive Income Before tax **2019 £m**	Increase / (Decrease) in total equity at 31 December **2019 £m**
PPOs		
Impact of a 1% increase in the discount rate used to value PPOs	**4.6**	**4.6**
Impact of a 1% reduction in the discount rate used to value PPOs	**(6.7)**	**(6.7)**

1. The sensitivities relating to an increase or decrease in the discount rate used for PPOs illustrate a movement in the time value of money.
2. The selection of these sensitivities should not be interpreted as a prediction.

4. Capital management and risk management and control (continued)

The tables below reflect the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each statement of financial position date, together with the cumulative payments to date. The Company aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Analysis of claims development – gross of reinsurance

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Initial estimate of gross provision	523.5	620.0	803.7	833.7	827.9	799.1	879.7	847.2	920.0	865.8	
One year later	548.3	632.9	766.4	791.0	793.2	845.9	834.4	829.5	870.1		
Two years later	555.5	624.7	748.6	774.5	781.4	831.4	815.0	819.8			
Three years later	551.9	620.0	728.4	758.5	770.1	794.8	801.0				
Four years later	547.3	617.9	717.3	768.7	747.0	788.9					
Five years later	545.1	606.1	725.4	731.0	742.7						
Six years later	523.1	622.1	719.9	725.7							
Seven years later	529.9	621.3	719.9								
Eight years later	538.4	623.8									
Nine years later	539.2										
Current estimate of cumulative claims	539.2	623.8	719.9	725.7	742.7	788.9	801.0	819.8	870.1	865.8	7,496.9
Cumulative payments to date	(521.8)	(607.2)	(715.0)	(706.8)	(719.6)	(730.4)	(713.8)	(654.1)	(683.9)	(536.7)	(6,589.3)
Liability recognised in the balance sheet for 2009 to 2019 accident years	17.4	16.6	4.9	18.9	23.1	58.5	87.2	165.7	186.2	329.1	907.6
Liability recognised in the balance sheet in respect of prior accident years											13.6
Claims handling provision											13.4
Provision as at 31 December 2019											**934.6**

Analysis of claims development – net of reinsurance

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Initial estimate of net provision	518.2	613.8	792.5	822.4	817.5	704.8	772.1	640.3	709.2	684.7	
One year later	542.8	619.7	762.2	781.6	743.1	782.1	636.1	642.5	680.1		
Two years later	549.4	618.4	745.4	738.7	731.3	732.5	641.0	638.2			
Three years later	541.7	614.7	717.3	727.7	730.2	705.8	631.0				
Four years later	536.5	602.6	710.7	739.9	708.0	698.1					
Five years later	532.1	594.5	717.2	703.3	700.7						
Six years later	507.3	600.0	707.8	699.3							
Seven years later	515.2	603.2	708.4								
Eight years later	527.4	605.1									
Nine years later	528.3										
Current estimate of cumulative claims	528.3	605.1	708.4	699.3	700.7	698.1	631.0	638.2	680.1	684.7	6,573.9
Cumulative payments to date	(520.7)	(597.3)	(704.5)	(685.0)	(682.4)	(657.2)	(568.8)	(528.1)	(543.0)	(434.3)	(5,921.3)
Liability recognised in the balance sheet for 2010 to 2019 accident years	7.6	7.8	3.9	14.3	18.3	40.9	62.2	110.1	137.1	250.4	652.6
Liability recognised in the balance sheet in respect of prior accident years											6.2
Claims handling provision											13.4
Provision as at 31 December 2019.											**672.2**

4. Capital management and risk management and control (continued)

Market risk

Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has defined policies and procedures in place to control the major components of market risk. Exposures to individual companies in aggregate are monitored by the Finance and Investment Committee (FICo) in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each internal fund. Securities held are primarily listed and traded on recognised stock exchanges, predominantly in the UK.

Strategic asset allocation is discussed at the monthly FICo meetings, covering investment return and concentration and to agree any changes required.

Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in market rates. Thus if interest rates fall the fair value of the portfolio would tend to rise and vice-versa.

The Company manages interest rate risk against its Solvency II (regulatory capital) metrics. There is an agreed level of risk tolerance and exposure is monitored against this on a monthly basis.

The Company manages interest rate risk by employing an 'Available for Sale' strategy, where assets are planned to be held until maturity, reducing the impact of interest rate risk on the statutory reporting profits.

Credit spread risk

In addition to interest rate risk, described above, a widening of corporate bonds spreads over and above risk-free yields will lead to a fall in the fair value of the Company's portfolio of corporate bonds and vice-versa.

The Company monitors credit spread risk by regularly reviewing its exposure to corporate bonds by both credit rating and duration. The liabilities are undiscounted and so unaffected in current value by changes in credit spreads.

The Company manages credit spread risk by employing an 'Available for Sale' strategy, where assets are planned to be held until maturity, reducing the impact of interest rate risk on the statutory reporting profits.

4. Capital management and risk management and control (continued)

Equity risk

The Company has a single equity holding, Lyons Davidson, which is in place due to synergies with the core business. The Company came out of all other equity holdings during 2019 due to a change in investment strategy, to better align with Allianz Group strategy.

Currency risk

The Company had no exposure to currency risk in 2019 (2018: no exposure).

Sensitivity analysis to market risks

The table below shows the results of sensitivity testing on the Company's pre-tax profit (pbt) and post-tax profit (pat). The sensitivity analysis shows the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets.

	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
	2019	**2019**	2018	2018
	£000	**£000**	£000	£000
Interest rate risk				
+ 100 basis points shift in yield curve	**-**	**(39,547)**	(4,054)	(3,284)
- 50 basis points shift in yield curve	**-**	**23,251**	2,061	1,669
Credit spread risk				
100 basis points widening in all credit spreads	**-**	**(17,080)**	(3,036)	(2,459)
50 basis points tightening in all credit spreads	**-**	**8,789**	1,551	1,256

Given that our bonds are entirely held as Available for Sale (AFS) now, there is no sensitivity to the IFRS SOCI to movements in interest rates and credit spreads. Movements would be reflected on the SOFP within the AFS reserve and within Other Comprehensive Income. There is still sensitivity to interest and credit spread movements on the Solvency II balance sheet, which is why their remains close monitoring of these risks.

4. Capital management and risk management and control (continued)

Credit Counterparty risk

Credit risk is the risk that a counterparty fails to meet its contractual obligations in full as they fall due, resulting in a financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio and reinsurance programme and amounts due from insurance intermediaries and policyholders.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given their high credit ratings the Company does not expect any counterparty to fail to meet its obligations. Counterparty exposure is subject to regular review.

Reinsurance exposures are monitored regularly. The Company assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at 31 December 2019 was £28,956,000 (2018: £19,361,000), all of which was not rated.

The Company also reduces its exposure to credit risk related to intermediaries by diversification through the use of a significant number of brokers.

Exposure to policyholder risk is managed by a credit default policy. The policy servicing function monitors the ageing of policyholder balances, where policies are sold on instalment terms, and will cancel policies at the point of default. When the debt goes into arrears it is managed to ensure it is collected where possible. In addition to the above the Company also monitors the debt via the FICO and provides against older debts.

4. Capital management and risk management and control (continued)

The Company's exposure to credit risk by investment grade is summarised below:

Credit risk exposure 2019	**AAA** **£000**	**AA** **£000**	**A** **£000**	**BBB** **£000**	**Below BBB** **£000**	**Not rated** **£000**	**Total** **£000**
Debt and other fixed income securities							
- Available for sale financial assets	150,677	193,597	293,682	272,218	-	-	910,174
Cash and cash equivalents	126,789	99,893	145,955	-	-	24,184	396,822
Loans and other receivables	-	-	66,667	-	-	90,784	157,451
Insurance receivables	-	39,434	-	-	-	206,413	245,847
Reinsurance assets	-	237,475	33,053	-	-	15	270,543
Total exposure	**277,466**	**570,399**	**539,357**	**272,218**	**-**	**321,397**	**1,980,837**

Credit risk exposure 2018	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities							
- Fair value through profit or loss assets	70,861	10,724	19,226	102,607	-	-	203,418
- Available for sale financial assets	230,005	136,629	171,495	176,700	-	-	714,829
Cash and cash equivalents	-	74,122	118,464	-	-	-	192,586
Loans and other receivables	-	-	66,667	-	-	107,936	174,603
Insurance receivables	-	29,561	-	-	-	190,019	219,580
Reinsurance assets	-	262,620	36,552	-	-	15	299,187
Total exposure	300,866	513,656	412,404	279,307	-	297,970	1,804,203

4. Capital management and risk management and control (continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset in the SOFP when the Company intends to apply a current legally enforceable right to offset. Master netting arrangements and cash collateral are utilised by the Company to minimise credit risk exposure.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

An analysis is included of netting arrangements which meet the offsetting criteria within IFRS7 and are set off in the SOFP and also those which do not meet the criteria.

As at 31 December 2019	**Amounts off set**			**Related amounts not off set**		
	Gross assets off set	**Gross liabilities**	**Net amounts presented**	**Financial Instruments**	**Cash Collateral pledged**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Bank overdrafts	**(24,266)**	**12,842**	**(11,424)**	**-**	**-**	**(11,424)**
Total	**(24,266)**	**12,842**	**(11,424)**	**-**	**-**	**(11,424)**

As at 31 December 2018	Amounts off set			Related amounts not off set		
	Gross assets	Gross liabilities off set	Net amounts presented	Financial Instruments	Cash Collateral received	Net amount
	£000	£000	£000	£000	£000	£000
Derivative financial assets	815	-	815	-	(815)	-
Total	815	-	815	-	(815)	-

	Amounts off set			Related amounts not off set		
	Gross assets off set	Gross liabilities	Net amounts presented	Financial Instruments	Cash Collateral pledged	Net amount
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Bank overdrafts	19,415	(30,086)	(10,671)	-	-	(10,671)
Total	19,415	(30,086)	(10,671)	-	-	(10,671)

4. Capital management and risk management and control (continued)
In accordance with IFRS 7 the collateral reported in the table above is limited to the amount reported in the SOFP for the associated financial instrument.

As at 31 December 2019, the Company was not holding any counterparty collateral (2018: nil). Total collateral pledged by the Company was £nil (2018: £1,574,000) and is split between cash collateral paid of £nil (2018: £nil) and future margin of cash of £nil (2018: £1,574,000).

No collateral received from the counterparty has been sold or repledged (2018: nil).

Collateral posted to the company by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association (ISDA) agreement. This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex if such failure is not remedied within 30 days after notice of such failure is given. Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the Company.

The Company reviews the carrying value of its financial assets at each SOFP date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the SOCI. As at 31 December 2019 £395,000 (2018: £512,000) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The table below provides information regarding the maximum credit risk exposure to financial assets, together with the extent to which they are due, overdue and impaired. The table also shows the age analysis of the Company's past due and/or impaired assets.

Age analysis of assets past due/impaired 2019	**<31 days**	**31 to 60 days**	**61 to 90 days**	**>90 days**	**Total past due but not impaired**	**Past due and impaired**	**Neither past due nor impaired**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance receivables	**729**	**25**	**27**	**41**	**822**	**395**	**244,630**	**245,847**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**157,451**	**157,451**

Age analysis of assets past due/impaired 2018	<31 days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Neither past due nor impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	4,279	533	80	35	4,927	512	214,141	219,580
Loans and other receivables	-	-	-	-	-	-	174,603	174,603

4. Capital management and risk management and control (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial and insurance contract liabilities. The Company is exposed to daily calls on its cash resources from claims arising from insurance contracts it has underwritten.

The Company has a liquidity risk appetite policy which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions. The most significant payments made are claims, the payment profile of which is predictable. The Company maintains cash and liquid deposits to meet demands on a daily basis. In normal circumstances, the majority of claims are settled from cash received from intermediaries and policyholders.

The Company forecasts cash flows on a daily basis to ensure that sufficient liquid funds exist to meet its short-term cash outflows. Any surplus funds are invested to achieve a higher rate of return.

The majority of investments are held in assets that are traded in active markets.

The table below summarises the expected recovery or settlement of assets:

	2019			2018		
Maturity profile of financial assets	**Within 1 year £000**	**Over 1 year £000**	**Total £000**	Within 1 year £000	Over 1 year £000	Total £000
Financial assets						
- Fair value through profit or loss assets	**-**	**-**	**-**	277,865	132,915	410,780
- Derivative financial instruments	**-**	**-**	**-**	815	-	815
Available for sale financial assets						
- Shares, other variable yield securities and units in unit trust	**-**	**733**	**733**	-	-	-
- Debt securities	**165,043**	**745,130**	**910,173**	40,832	673,997	714,829
Loans and other receivables	**157,451**	**-**	**157,451**	174,603	-	174,603
Reinsurers' share of claims outstanding	**59,677**	**202,738**	**262,415**	57,274	227,103	284,377
Insurance receivables	**245,847**	**-**	**245,847**	219,580	-	219,580
Accrued interest and income	**28,398**	**-**	**28,398**	25,923	-	25,923
Cash and cash equivalents	**396,822**	**-**	**396,822**	192,586	-	192,586
	1,053,238	**948,601**	**2,001,839**	989,478	1,034,015	2,023,493

4. Capital management and risk management and control (continued)

The table below summarises the contractual maturity profile of the financial liabilities of the Company based on remaining undiscounted obligations:

Maturity profile of financial and insurance liabilities 2019	**Within 1 year £000**	**1-3 years £000**	**3-5 years £000**	**Over 5 years £000**	**Total £000**
Insurance contract liabilities	**303,469**	**297,448**	**175,327**	**158,335**	**934,579**
Insurance payables	**11,177**	**-**	**-**	**-**	**11,177**
Trade and other payables - excluding tax and social security costs	**109,985**	**-**	**-**	**-**	**109,985**
	424,631	**297,448**	**175,327**	**158,335**	**1,055,741**

Maturity profile of financial and insurance liabilities 2018	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	384,820	336,268	163,579	122,578	1,007,245
Financial liabilities					
Insurance payables	19,538	-	-	-	19,538
Trade and other payables - excluding tax and social security costs	82,776	-	-	-	82,776
	487,134	336,268	163,579	122,578	1,109,559

Fair value estimation
The following fair value estimation tables present the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2019.

The fair value of financial instruments included in the level 1 category below are based on published quoted bid market prices in an active market at the year end date. A market is regarded as an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial instruments are not traded in an active market or their fair value is determined using valuation techniques. These valuation techniques apply data from observable current market transactions where it is available, and for some pricing is obtained via pricing services. Where prices have not been determined by reference to an active market, financial assets with fair values are based on broker quotes.

Specific valuation techniques used to value financial instruments classified as level 3 include:

- Quoted market prices or dealer quotes for similar instruments (unlisted shares).
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves of similar instruments.
- The fair value of forward exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instrument.

4. Capital management and risk management and control (continued)

Fair value estimation (continued)
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no changes to the valuation techniques during the year.

There were no transfers from levels 1 and 2 during the year.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The valuation of all of the Group's investment holdings is performed by independent and qualified valuers.

Any changes to fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income with the exception of investment contract liabilities where the movement is recognised within the gross change in contract liabilities.

The following tables presents the Company's assets and liabilities measured at fair value at 31 December:

	2019				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts	**-**	**-**	**733**	**733**	64,074	142,555	733	207,362
Debt and other fixed income securities	**-**	**-**	**-**	**-**	26,736	176,682	-	203,418
Derivative financial instruments	**-**	**-**	**-**	**-**	815	-	-	815
Collateral pledged	**-**	**-**	**-**	**-**	1,574	-	-	1,574
Total	**-**	**-**	**733**	**733**	93,199	319,237	733	413,169

	2019				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Available-for-sale financial assets								
Debt and other fixed income securities	**35,341**	**874,832**	**-**	**910,173**	27,119	687,710	-	714,829
Total	**35,341**	**874,832**	**-**	**910,173**	27,119	687,710	-	714,829

4. Capital management and risk management and control (continued)

Movement in Level 3 Financial Instruments measured at fair value:	**Fair value through profit or loss**	**Total**
	£000	**£000**
Balance at 1 January 2019	**733**	**733**
Balance at 31 December 2019	**733**	**733**

Movement in Level 3 Financial Instruments measured at fair value:	Fair value through profit or loss	Total
	£000	£000
Balance at 1 January 2018	733	733
Balance at 31 December 2018	733	733

Sensitivities of level 3 investments
Changing the inputs for the Company's level 3 assets would not significantly change the fair value.

Information about fair value measurements using significant unobservable inputs (Level 3):

	Fair value at 31 December 2019 £000	**Valuation technique(s)**	**Unobservable Inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Financial Assets held at fair value through profit or loss					
Shares, other variable yield securities and units in unit trusts					
- UK unlisted	**733**	**N/A***	**N/A***	**N/A***	**N/A***

	Fair value at 31 December 2018 £000	Valuation technique(s)	Unobservable Inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial Assets held at fair value through profit or loss:					
Shares, other variable yield securities and units in unit trusts					
- UK unlisted	733	N/A*	N/A*	N/A*	N/A*

* Due to the nature of these holdings the quantitive unobservable inputs are not developed by the entity when measuring fair value, and in accordance with IFRS 13 paragraph 93 (d) the Company has not disclosed the relevant information.
The Company has not determined the fair value at 31 December 2018 and instead is held at cost.

4. Capital management and risk management and control (continued)

Operational risk
Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk.

Senior managers are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these to the Risk Committee in accordance with the Company's escalation criteria. Operational risks are assessed in terms of their probability and impact in accordance with Company policy.

Strategic risk
Strategic risk is the risk arising from ineffective, inefficient, or inadequate senior management process for the development and implementation of business strategy in relation to the business environment and the group's capabilities.

The strategic risks of the business are assessed and managed by the business risk committees which then report these and other significant risks to the LVGIG Risk Committee, where the risks are reviewed and challenged. The LVGIG Chief Risk Officer reports on a group basis all strategic risks to the LVGIG board's risk committee.

Group risk
Group risk is the risk of contagion incurred from its membership of a group of firms. The LVGIG Executive Risk Committee oversees the management of such risks.

The Company has not identified any significant group risks.

5. Net premium revenue

	2019	2018
	£000	£000
Insurance contracts		
Premiums written	**1,198,325**	1,100,424
Change in unearned premium reserve	**(54,116)**	(8,227)
Premium revenue arising from insurance contracts issued	**1,144,209**	1,092,197
Reinsurance contracts		
Premiums payable	**(258,841)**	(257,710)
Change in unearned premium reserve	**(5,867)**	1,713
Premium revenue ceded to reinsurers on insurance contracts issued	**(264,708)**	(255,997)
Net premium revenue	**879,501**	836,200
Motor	**891,186**	856,691
Property	**153,101**	139,532
Commercial	**1,178**	3,407
Other	**98,744**	92,567
Premium Revenue by Line of Business	**1,144,209**	1,092,197

Other premium revenue includes Travel, Legal, Pet Insurance and Road Rescue.

6. Investment income

	2019	2018
	£000	£000
Available for sale financial assets		
- Interest income	**14,510**	2,625
- Dividend income	**2,955**	-
Fair value through profit or loss assets		
- Interest income	**5,750**	25,975
- Dividend income	**-**	3,209
- Dividend income from Group Undertakings	**11,000**	8,000
	34,215	39,809

7. Net losses on investments

	2019	2018
	£000	£000
Gain on available for sale financial assets		
- Debt securities	**743**	-
Gains/ (losses) on financial assets at fair value through profit or loss		
- Debt securities	**(485)**	(19,970)
- Equity securities	**6,660**	(4,921)
- Derivative financial instruments	**(8,154)**	(114)
	(1,236)	(25,005)

On a continuing basis the Company had net fair value losses on financial assets at FVTPL which include a net realised loss of £17,052,000 (2018: loss £29,282,000) and a net unrealised gain of £15,073,000 (2018: gain £4,277,000). There were realised gains on AFS financial assets in 2019 of £772,000 (2018: £nil). Changes in the fair value of AFS financial assets are reported in the AFS reserve within equity.

8. Other income

	2019	2018
	£000	£000
Interest Receivable from insurance contracts	**31,000**	27,439
Other Income	**27,627**	23,884
	58,627	51,323

Other income is primarily comprised of fee and commission income.

9. Insurance claims and loss adjustment expenses

	2019	2018
	£000	£000
Gross insurance claims		
Claims paid during the year	**801,962**	758,558
Claims handling costs	**47,674**	45,982
Movement in claims liabilities	**(22,182)**	(95,774)
	827,454	708,766
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(172,420)**	(162,889)
Movement in reinsurers' share of claims liabilities	**8,924**	42,160
	(163,496)	(120,729)
Net insurance claims	**663,958**	588,037

10. Other operating and administrative expenses

	2019	2018
	£000	£000
Investment management expenses and charges	**1,391**	2,245
Acquisition expenses	**99,553**	100,736
Movement in deferred acquisition costs	**(966)**	(881)
Auditors' remuneration	**-**	424
Amortisation of intangibles	**195**	165
Impairment of insurance receivables	**1,018**	1,534
Administrative expenses	**127,278**	107,316
	228,469	211,539

Staff costs were incurred by LVGIG and recharged to the company. Included within Administrative expenses and Claims handling costs (which are disclosed within Gross Insurance Claims) are staff costs of £108,672,189 (2018: £117,350,000).

11. Discontinued operations

a) Description

The Commercial lines business represents a separate major line of business that can be clearly distinguished operationally and for financial reporting purposes from the Company. Whilst new business was written by the Company up until September 2018, the principal value of the Commercial broker lines business has been recovered through the sale of the renewal rights on 28 December 2017. Therefore the business meets the criteria to be presented as a discontinued operation which has been sold.

b) Financial performance and cash flow information

Financial information relating to the discontinued operation for the years to 31 December 2019 and 2018 are presented below.

	2019	2018
	£000	£000
Net earned premiums	**19,247**	82,406
Net fair value losses on financial assets at fair value through income	**(65)**	(2,743)
Investment income	**1,797**	4,368
Other income	**332**	793
Net insurance claims	**(5,357)**	(62,397)
Expenses and finance costs	**(8,500)**	(40,191)
Profit/(Loss) before tax	**7,454**	(17,764)
Income tax (expense)/credit	**(1,395)**	3,419
Profit/(Loss) after tax of discontinued operation	**6,059**	(14,345)

	2019	2018
	£000	£000
Net Cash Inflow/ (Outflow) from operating activities	**7,454**	(17,764)
Increase/ (decrease) in cash generated by Commercial broker	**7,454**	(17,764)

12. Auditors' remuneration

	2019	2018
	£000	£000
Audit of the Company	**400**	346
Audit related assurance services	**85**	78
	485	424

There were no other services carried out by the Auditors in respect of the Company.

13. Directors' emoluments

The Directors of the Company are remunerated by LVGIG.

The details of Directors' emoluments below include the total emoluments of those Directors who have a wider role in LVGIG, as well as providing service to the Company. It is not possible to make an accurate apportionment of these emoluments in respect of each of the subsidiaries within LVGIG.

The aggregate amount of Directors' emoluments was as follows:

	2019	2018
	£000	£000
a) Aggregate emoluments	**4,077**	2,988

b) Emoluments of the Directors were as follows:

	Fees and Salaries	**Bonus**	**Deferred bonus**	**Other benefits**	**Long term incentive plan**	**2019 Total**	2018 Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Highest paid Director	**527**	**190**	**126**	**162**	**906**	**1,911**	1,003
All Directors	**1,693**	**736**	**126**	**302**	**1,220**	**4,077**	2,988

Deferred bonus represents the amount of the 2019 performance bonus payable over the next three years.
Other benefits include payments in lieu of pension contributions, car allowance, medical insurance, health screening, income protection cover and life cover.
Further details on the Long Term Incentive Plan are disclosed within the Financial Statements of LVGIG.

d) Pension arrangements
The LVGIG Employee Pension Scheme is administered at LVGIG level and incorporates both a defined benefit section and defined contribution section. The defined benefit section was closed to future accrual in 2013 at which point existing members were eligible to join the defined contribution section.

Further details of the LVGIG Employee Pension Scheme are disclosed within the financial statements of LVGIG.

	2019	2018
Deferred pension at end of the year	**£000**	£000
All Directors	**33**	32

14. Income tax expense

a) Current tax

	2019	2018
	£000	£000
Current year tax expense		
Corporation tax	**13,683**	13,867
Adjustment to current tax in respect of prior years	**-**	(71)
Total current tax	**13,683**	13,796
Deferred tax		
Temporary differences	**121**	109
Total deferred tax charge	**121**	109
Total income tax expense	**13,804**	13,905
Income tax expense attributable to:		
Profit from continuing operations	**12,409**	17,324
Profit/(Loss) from discontinued operations	**1,395**	(3,419)
	13,804	13,905

b) Reconciliation of tax expense

The tax assessed for the year is lower (2018:lower) that the standard rate of corporation tax in the UK 19% (2018:19%)

	2019	2018
	£000	£000
Profit before tax from continuing operations	**78,680**	102,751
Profit/(Loss) before tax from discontinued operations	**7,454**	(17,764)
Profit before tax	**86,134**	84,987
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**16,365**	16,148
Tax effects of:		
Impact of change in UK corporation tax rate on deferred tax balances	**-**	(12)
Income not subject to corporation tax	**(2,561)**	(2,160)
Adjustment to current tax in respect of prior years	**-**	(71)
Total income tax expense for the year	**13,804**	13,905

15. Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2019	**15,812**	**3,375**	**19,187**
At 31 December 2019	**15,812**	**3,375**	**19,187**
Accumulated amortisation			
At 1 January 2019	**-**	**(1,920)**	**(1,920)**
Amortisation charge for the year	**-**	**(195)**	**(195)**
At 31 December 2019	**-**	**(2,115)**	**(2,115)**
Net book value at 31 December 2019	**15,812**	**1,260**	**17,072**

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2018	15,812	3,375	19,187
At 31 December 2018	15,812	3,375	19,187
Accumulated amortisation			
At 1 January 2018	-	(1,755)	(1,755)
Amortisation charge for the year	-	(165)	(165)
At 31 December 2018	-	(1,920)	(1,920)
Net book value at 31 December 2018	15,812	1,455	17,267

Impairment testing of goodwill
Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. The recoverable amount of the cash generating unit is based on value-in-use calculations. The calculations are based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect the Directors view of future performance.

Key assumptions used in the impairment testing of goodwill
The recoverable amount of the general insurance business has been determined using cash flow predictions based on financial plans approved by the Directors covering a three year period, with a further two year period of projection and a terminal growth rate of 1.1% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 8.1%. Both the growth rate and the discount rate are consistent with ranges observed in the market place

16. Deferred acquisition costs

	2019 £000	2018 £000
At 1 January	**56,062**	64,751
Acquisition expenses deferred	**99,321**	121,240
Amortisation	**(105,620)**	(129,929)
At 31 December	**49,763**	56,062

17. Investments in group undertakings

	2019	2018
	£000	£000
At 1 January	**332,112**	301,112
Capital contributions	**-**	31,000
Balance at 31 December	**332,112**	332,112

On 31st October 2018 the company made a capital contribution to its subsidiary HIG of £31m.

Name	**Incorporated and domiciled**	**Principal activity**	**Percentage of shares held**	**Type of shares held**
Highway Insurance Group Limited	England and Wales	General insurance holding company	100% directly held	Ordinary
Highway Insurance Company Limited	England and Wales	General insurance	100% indirectly held	Ordinary
LV Repair Services Limited	England and Wales	Repair engineering services	100% directly held	Ordinary
Highway Group Services Limited	England and Wales	Dissolved	100% indirectly held	Ordinary

All subsidiaries are at the registered address: 57 Ladymead, Guildford, Surrey GU1 1DB.

Key assumptions used in the impairment testing of investments in group undertakings
The recoverable amount (based on value-in-use calculations) of the investments in group undertakings has been determined using cash flow predictions based on financial plans approved by the Company covering a five-year period. These plans assume average annual growth in Gross Written Premium of 6.3% over this period where the Company continues to build on the growth associated with the new product lines and renewal business acquired from Allianz, and that the Underwriting loss ratio decreases to 68% consistent with historic levels, and the Expense ratio decreases to 27%, in part through cost reductions associated with integration with Allianz, with a terminal growth rate of 1.1% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 8.1%. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place. Based on the above assumptions, the recoverable amount exceeded the carrying amount by £59.1m. This base case assumes no benefit or upside from the Fairmead transaction disclosed in note 37 which is treated as a post balance sheet event.

The base case discounted cash flows are most sensitive to a change in assumed growth over the next 5 years. Currently, a reduction in the annual growth rate over the next 5 years to 4% removes all headroom. Alternatively, a discount rate increase of 1% would result in an impairment of £7.8m. The cash flows used in the financial plans are also sensitive to changes in the loss ratio. A 1% increase in the loss ratio would result in £4.2m headroom.

18. Prepayments and accrued income

	2019	**2018**
	£000	£000
Accrued interest	**17,929**	17,612
Prepayments	**2,768**	2,085
Accrued Income	**10,469**	8,311
	31,166	28,008

19. Financial assets

	2019	2018
	£000	£000
Summary		
Fair value through profit or loss assets	**-**	410,780
Available for sale financial assets	**910,906**	714,829
Total financial assets	**910,906**	1,125,609
(a) Fair value through profit or loss assets		
Shares, other variable yield securities and units in unit trusts	**-**	207,362
Debt and other fixed income securities	**-**	203,418
Total financial assets at fair value through profit or loss	**-**	410,780
(b) Available for sale financial assets		
Shares, other variable yield securities and units in unit trusts	**733**	-
Debt and other fixed income securities	**910,173**	714,829
Total available for sale financial assets at fair value	**910,906**	714,829

20. Derivative financial instruments

The Company utilises the following derivative instruments for hedging the effects of exchange rate changes. During 2019 all equity exposure was removed with the equity derivative closed out. Fair values are estimated using current market index data and are included in assets/liabilities as set out in the following table:

	2019			2018		
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
	£000	**£000**	**£000**	£000	£000	£000
Equity/Index derivatives	**-**	**-**	**-**	51,557	815	-
	-	**-**	**-**	51,557	815	-

The carrying amounts disclosed above reasonably approximate fair value at the SOFP date.

21. Current tax liability

	2019	2018 Restated
	£000	£000
At 1 January	**(6,399)**	(8,448)
Amounts recorded in the statement of comprehensive income	**(13,683)**	(13,796)
Payments made in respect of Group relief	**-**	3,773
Income tax paid/(recovered)	**14,877**	12,072
At 31 December	**(5,205)**	(6,399)

22. Loans and other receivables

	2019	2018
	£000	£000
Amounts due from group undertakings	**86,129**	88,309
Other receivables	**4,655**	18,053
Cash collateral pledged	**-**	1,574
Reverse repurchase agreements	**66,667**	66,667
	157,451	174,603

23. Reinsurance assets

	2019	2018
	£000	£000
Reinsurers' share of provision for unearned premiums	**8,128**	14,810
Reinsurers' share of claims outstanding	**262,415**	284,377
	270,543	299,187

Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in insurance receivables.

24. Insurance receivables

	2019	2018
	£000	£000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	**177,457**	170,658
- Due from agents, brokers and intermediaries	**28,956**	19,361
- Due from reinsurers	**39,434**	29,561
	245,847	219,580

25. Cash and cash equivalents

	2019	2018
	£000	£000
Bank balances	**9,370**	41,594
Short term bank deposits	**387,452**	150,992
Cash and cash equivalents per statement of financial position	**396,822**	192,586
Non-offsettable Bank overdrafts (see note 29)	**(11,617)**	(10,862)
Cash and cash equivalents per statement of cash flows	**385,205**	181,724

26. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2019			2018		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**934,579**	**(262,415)**	**672,164**	1,007,245	(284,377)	722,868
General insurance unearned premiums	**588,100**	**(8,128)**	**579,972**	561,402	(14,810)	546,592
	1,522,679	**(270,543)**	**1,252,136**	1,568,647	(299,187)	1,269,460

b) Movement in general insurance claims liabilities

	2019			2018		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**1,082,340**	**(279,078)**	**803,262**	1,088,938	(270,472)	818,466
IBNR	**(75,095)**	**(5,299)**	**(80,394)**	5,130	(51,188)	(46,058)
Balance at 1 January	**1,007,245**	**(284,377)**	**722,868**	1,094,068	(321,660)	772,408
Movement in claims incurred in prior accident years	**(81,904)**	**19,733**	**(62,171)**	(177,803)	70,207	(107,596)
Claims incurred in the current accident year	**865,833**	**(181,125)**	**684,708**	920,004	(210,825)	709,179
Claims paid during the year	**(856,595)**	**183,354**	**(673,241)**	(829,024)	177,902	(651,122)
	(72,666)	**21,962**	**(50,704)**	(86,823)	37,284	(49,539)
Balance at 31 December	**934,579**	**(262,415)**	**672,164**	1,007,245	(284,376)	722,869
OCR	**939,110**	**(217,105)**	**722,005**	1,082,340	(279,078)	803,262
IBNR	**(4,531)**	**(45,341)**	**(49,872)**	(75,095)	(5,299)	(80,394)
CHP	**-**	**31**	**31**	-	-	-
Balance at 31 December	**934,579**	**(262,415)**	**672,164**	1,007,245	(284,377)	722,868

c) Movement in general insurance unearned premiums

	2019			2018		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**561,402**	**(14,810)**	**546,592**	590,036	(14,173)	575,863
Premiums written in the year	**1,197,583**	**(265,454)**	**932,129**	1,177,769	(288,435)	889,334
Premiums earned during the year	**(1,170,885)**	**272,136**	**(898,749)**	(1,206,403)	287,798	(918,605)
Balance at 31 December	**588,100**	**(8,128)**	**579,972**	561,402	(14,810)	546,592

26. Insurance contract liabilities (continued)

Outstanding Claims Reserve ('OCR')

The purpose of the OCR is to ensure adequate reserves are in place for known claims. It is calculated by aggregating the case reserves for all known claims and is generated each month-end by a system driven calculation. However, the aggregated case reserves may be deemed to be over or understated against the expected ultimate settlement cost of the known claims and this is allowed for in the IBNR calculation.

Incurred But Not Reported Reserve ('IBNR')

The purpose of the IBNR reserve is to reflect the additional claims cost from claims incurred but not reported before the Statement of Financial Position date, known as 'pure IBNR' and the cost of any over or understatement in the OCR, known as Incurred But Not Enough Reported ('IBNER').

IBNR is calculated as part of the quarterly actuarial reserve reviews using a combination of statistical/actuarial techniques.

These projections are performed on homogeneous groups of claim types. Otherwise, the projections would be prone to error from changes in mix by claim type.

The claim types modelled for motor products are:

- Accidental Damage
- Fire & Theft
- Windscreen
- Third Party Property Damage
- Third Party Personal Injury

The claim types modelled for household products are:

- Escape Of Water (Buildings only)
- Weather (Buildings and Contents separately)
- Weather and Freeze events (Buildings and Contents Separately)
- Subsidence (Buildings only)
- All other building claims
- Personal Possessions
- Caravans

Unearned Premium Reserve ('UPR')

The UPR is that proportion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position. This calculation is based on either a daily or monthly pro-rata basis and forms part of the insurance contract liabilities balance in the Statement of Financial Position.

Claims Margin
Our approach is designed to create a margin held in reserves to allow for adverse developments in open claims. Our booked claims reserves continue to include a margin above projected best estimate of ultimate claims costs.

27. Deferred tax asset / (liability)

	2019 £000	2018 £000
At 1 January	**191**	(1,039)
Charge to Statement of Comprehensive Income	**(121)**	(109)
Amounts recorded within Other comprehensive expense	**(3,243)**	1,339
At 31 December	**(3,173)**	191

Analysis of deferred taxation temporary differences:	**2019 £000**	2018 £000
Accelerated capital allowances	**5**	7
Other balance	**(12)**	-
Intangible fixed assets	**(1,262)**	(1,155)
Fair value of available for sale financial assets	**(1,904)**	1,339
	(3,173)	191

Analysis of the deferred tax balance is as follows:	**2019 £000**	2018 £000
Deferred tax (liability)/asset expected to be recovered after more than 12 months	**(3,162)**	190
Deferred tax (liability)/asset expected to be recovered within 12 months	**(11)**	1
Net deferred tax (liability)/asset	**(3,173)**	191

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

28. Insurance payables

	2019 £000	2018 £000
Due to reinsurers	**10,353**	18,393
Due to policy holders	**824**	1,144
Due to intermediaries	**1**	1
	11,178	19,538

29. Trade and other payables

	2019 £000	2018 £000
Bank overdrafts	**11,617**	10,862
Amounts owed to group undertakings	**40,251**	23,650
Accruals and deferred income	**39,560**	41,182
Other taxes and social security costs	**33,975**	30,676
Other payables	**18,557**	14,441
	143,960	120,811

Included within Amounts owed to group undertakings for the Company is an amount of 13m relating to the contractual dividend that the LVGIG Group is required to pay.

30. Share capital

	2019	2018
	£000	£000
Ordinary shares, allotted and fully paid		
384,907,680 (2018: 384,907,680) ordinary shares of £1 each	**384,908**	384,908

All authorised shares have been issued.

31. Capital reserve

	2019	2018
	£000	£000
Balance at 1 January	**2,569**	67,064
Dividends paid	**(2,569)**	(64,495)
Balance at 31 December	**-**	2,569

The Company paid the following interim dividends to LVGIG

	2019	2018
	£000	£000
Dividends paid	**2,569**	64,495
Total dividends paid for the year	**2,569**	64,495

The reserve was created to receive capital contributions from its parent company, in order to provide regulatory capital in the Groups subsidiaries.

The capital reserve is distributable in future years, subject to the provisions of the Companies Act 2006.

32. Retained earnings

	2019	2018 Restated
	£000	£000
Balance at 1 January	**349,685**	278,603
Profit for the year	**72,330**	71,082
Dividend paid & payable	**(90,731)**	-
Balance at 31 December	**331,284**	349,685

33. Available for sale reserve

	2019	2018
	£000	£000
Balance at 1 January	**(6,537)**	-
Change in value of available for sale financial assets	**19,847**	(7,876)
Change in value of available for sale financial assets transferred to profit or loss	**(772)**	-
Income tax on these items	**(3,243)**	1,339
Balance at 31 December	**9,295**	(6,537)

34. Cash generated from / (used in) operating activities

	2019	2018
	£000	£000
Profit before tax from continuing operations	**78,680**	102,751
Profit/(Loss) before tax from discontinued operations	**7,454**	(17,764)
Profit before tax	**86,134**	84,987
Investment income	**(36,012)**	(44,177)
Interest income received	**(31,000)**	(27,439)
Losses on financial assets recorded in the statement of comprehensive income	**1,301**	27,748
Non-cash items		
Movement in expenses/income deferred during the year	**6,299**	8,689
Amortisation of intangible assets	**195**	165
Changes in working capital		
Decrease in loans and other receivables	**17,152**	52,837
Decrease in reinsurance assets	**28,644**	36,646
(Increase)/Decrease in insurance receivables	**(26,267)**	6,607
(Increase)/Decrease in prepayments and accrued income	**(2,841)**	1,506
Decrease in insurance contract liabilities	**(45,969)**	(115,457)
Decrease in insurance payables	**(8,360)**	(1,932)
Increase in trade and other payables	**9,392**	19,672
Cash generated from operating activities	**(1,332)**	49,852

35. Dividends per share

The following dividends were declared and paid in the year:

- 80,300 dividend payment on ordinary shares – 00.21p per share (2018: £nil – nil per share)

As a result of the sale of the final 51% stake in the LVGIG Group by its immediate parent LV Capital PLC to Allianz Holdings plc on 31 December 2019, there is a contractual liability to pay a dividend of £13m up to the LVGIG Group and accordingly this has been recorded through equity and will be paid in 2020. This liability is included within the Amounts due to Group undertakings note.

36. Related party transactions

The Company enters into transactions with key management personnel in the normal course of business. Key management personnel of the Group include all Directors, executive and non-executive, and senior management (the Board and the Executive Committee).

The summary of the compensation of key management personnel for the year is as follows:

	2019	2018
	£000	£000
Short-term employee benefits	**2,845**	2,608
Post-employment benefits	**-**	12
Other long-term benefits	**1,220**	380
	4,065	3,000

The following transactions have taken place between the Company and LV Repair Services Limited:

	2019	2018
	£000	£000
Cost of repairs from LV Repair Services Limited	**152,940**	130,184
Dividend from LV Repair Services Limited	**11,000**	8,000
	163,940	138,184

The following transactions have taken place between the Company and Liverpool Victoria General Insurance Group Limited:

	2019	2018
	£000	£000
Management charge to the Company	**175,495**	157,131
Dividend to Liverpool Victoria General Insurance Group Limited	**(93,300)**	(64,495)
	82,195	92,636

The following transactions have taken place between the Company and LV Insurance Management Limited:

	2019	2018
	£000	£000
Management charge to the Company	**56,728**	77,095
	56,728	77,095

Liverpool Victoria General Insurance Group Limited provides management services to the Company. In the prior year LV Insurance Management Limited provided management services to the Company.

The following transactions have taken place between the Company and Highway Insurance Group Limited:

	2019	2018
	£000	£000
Capital contribution to Highway Insurance Group Limited	**-**	(31,000)
	-	(31,000)

The following transactions have taken place between the Company and LV Assistance Services Limited:

	2019	2018
	£000	£000
Cost of services from LV Assistance Services Limited	**3,523**	2,963
	3,523	2,963

36. Related party transactions (continued)

Balances outstanding between the Company and other LV= Group companies:

	2019	2018
	£000	£000
Payable (to)/from the Company (to)/from group undertakings	**(40,251)**	(23,650)
Payable to the Company by the Allianz Group	**53,908**	-
Payable to the Company by LV Insurance Management Limited	**86,129**	88,310
	99,786	64,660

37. Post year end events

On 31 December 2019, Allianz Holdings plc acquired the remaining 51% of LVGIG to take full control.

On 1 January 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') which was subsequently renamed as Fairmead Insurance Limited. Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home with a small but growing Pet business.

Towards the end of 2020, existing customers of Fairmead will start to be invited to renew their policies with the company and one of the Company's subsidiaries.

Subsequent to year end it has been proposed to increase the £13,000,000 dividend to £73,000,000.

38. Subsequent Events

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. COVID-19 has been classified as a non-adjusting event for accounting purposes. At December 31, 2019, a very limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been rapid and the number of reported cases and deaths has increased significantly.

The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets and the impact on asset and liability values is being monitored with management plans in place to mitigate financial and operational risks. The financial impact of potential claims is difficult to estimate at this stage. However, whilst there is still a significant degree of uncertainty the Company remains in a robust position, and we expect solvency can be maintained above requirements under current laws and regulations. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

39. Ultimate parent company

The ultimate parent company and ultimate controlling party is Allianz SE, a European multinational financial services company headquartered in Munich, Germany.

The immediate parent company is Liverpool Victoria General Insurance Group Limited ('LVGIG'), a limited liability company, incorporated in the UK.

The ultimate and immediate parent companies are registered at the below addresses.

57 Ladymead,
Guildford,
Surrey,
England,
GU1 1DB

The largest company whose financial statements this company is consolidated into is Allianz SE. The smallest company whose financial statements this company is consolidated into is LVGIG. With effect from 31st December 2019 LVGIG is a 100% owned subsidiary of Allianz Holdings UK (2018: 49%), when it purchased the remaining 51% from the previous parent LV Capital plc.

The consolidated financial statements of Allianz SE and LVGIG are available to the public and may be obtained by post from:

The Company Secretary
57 Ladymead,
Guildford,
Surrey,
England,
GU1 1DB

or

Allianz
Königinstrasse 28
D-80802 Munich
Germany

Or online at www.allianz.com