Registered number: 03232514

Annual Report and Financial Statements 2023

Liverpool Victoria Insurance Company Limited

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Liverpool Victoria Insurance Company Limited

Company Information

Directors:	O R P Corbett (appointed 1 November 2023) P J Evans C J Holmes U Lange (appointed 30 May 2023) D J Larnder T Robson-Capps C G Townsend J R Vazquez
Company secretary:	C M Twemlow
Registered office:	57 Ladymead Guildford Surrey England GU11DB
Registered number:	03232514
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE12RT

Strategic Report for the Year Ended 31 December 2023

The Directors present their strategic report for the year ended 31 December 2023.

Principal activities

Liverpool Victoria Insurance Company Limited ("LVIC", "the Company") is a wholly owned subsidiary within the Allianz Holdings plc ("AzH") group of companies ("the Group") which is one of the largest general insurers in the United Kingdom ("UK"). The Company's 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 and household insurance products. Motor insurance products include private car, specialist car and motorcycle. The Company also underwrites liability, road rescue, pet and travel insurance.

The Company distributes products under a number of brands. An analysis of the 2023 results and the prospects for 2024 are set out below.

The Company is regulated by the Financial Conduct Authority ("FCA") and authorised and regulated by the Prudential Regulation Authority ("PRA").

Business Review

The Company has applied IFRS 17 and IFRS 9 for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

As a result, the Company has restated certain comparative amounts and has presented a third Statement of Financial Position ("SOFP") as at 1 January 2022. The nature and effect of the key changes in the Company's accounting policies resulting from the adoption of IFRS 17 and IFRS 9 are outlined in note 1.3.1.

The LV General Insurance brand was named a Which? Recommended Provider for car insurance for the 9th year in a row and 13th time in total. Flow, a digital motor insurance product, won best motor provider of the year at the Insurance Choice Awards.

LVIC continues to leverage its position as a subsidiary of AzH, as well as part of the Allianz Societas Europaea ("Allianz SE") Group globally. The Group was also recognised in the Insurance Post Best Insurance Employer being named a 5-star employer.

In January 2024, AzH announced its plans to bring the Allianz brand to the UK personal lines motor and household market. As part of the insurer's ambition to extend its UK presence, the personal lines business rebranded its existing digital motor insurance product from Flow to Allianz in March 2024, signalling a major branding step for the Company. The product offered by Flow, rated 5 stars by Defaqto, will remain available to customers direct and through aggregators.

The Company has a quota share reinsurance arrangement with an Allianz SE Group reinsurance company. The arrangement is that 40% of net earned premiums[1] and net claims are ceded and the Company receives a contribution of 19.3% of ceded earned premiums against incurred expenses and commission. This has the benefit of improving the solvency position by reducing the capital the Company is required to hold. The Company remains responsible for optimising the results of the business prior to this quota share arrangement.

Inflationary pressure and macroeconomic factors continue to impact all aspects of the UK motor and household insurance markets, from pricing and claims to repairs and procurement. Our focus remains on profitability and significant rate increases have been deployed throughout 2023 to combat continued inflationary pressures. Although the Company has achieved strong premium growth year-on-year, it returned a loss for the year with a combined operating ratio ("COR") of 106.6%.

Gross written premium is an alternative performance measure ("APM") used by the Company, this is reconciled to insurance service revenue in the Key Performance Indicators ("KPIs") section below. Gross written premium grew by 17.5% to £1,679.6m (2022: £1,430.0m) supported by increased average premiums. Motor growth was supported by increased Flow premiums resulting from first year of renewals, in addition to rate increases applied across the core motor book in light of significant claims inflation. Household products experienced strong growth also benefitting from significant rate increases but also the migration of policies from Fairmead Insurance Limited, a fellow subsidiary of Liverpool Victoria General Insurance Group ("LVGIG"). Other product lines were significantly below 2022 as a result of the migration of the Pet business to Allianz Insurance plc, a fellow Group company.

[1] Net earned premiums is defined as Insurance Service Revenue payable to the Company, less Reinsurance Earned premium ceded for the accident year.

Business Review (continued)

Claims performance continued to see significant pressure from high inflation throughout 2022 and into 2023, although premium increases, particularly in the second half of the year, have helped reduce the impact. Motor has experienced a multitude of challenges including rising repair costs, labour shortages and supply chain issues as a result of the global economic and political environment. The UK has also experienced multiple storms which have impacted the Household account.

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

Investment income has benefited from higher yields, however this is partially offset by the increased discount unwind on claims reserves as a result of a higher discount rate.

Overall, the Company has reported a loss before tax of £47.5m in 2023, an increase from a loss before tax of £25.2m in 2022.

A capital injection of £60.0m in March 2023 and a subsequent capital injection of £130.0m in June 2023 were received from the parent Company LVGIG. These were funded by dividends made from two other regulated entities within Allianz UK; Allianz Insurance plc (AZI) and Fairmead Insurance Limited (FIL). The capital injections were required to restore LVIC's solvency ratio to above the Management Ratio. The solvency ratio reduced to below this level as a result of underwriting losses, predominantly driven by the high inflationary environment, and also financial market movements, i.e increases in interest rates and credit spreads.

The Company reviewed the value of its investment in the subsidiary company, Highway Insurance Group Limited ("HIG"). The carrying value of HIG was £229.6m after a capital injection of £45.0m during 2023. Having undertaken an impairment assessment, management have concluded that an impairment was necessary and taken an approach to valuation based on the Solvency II net asset value. A value in use calculation indicated a higher valuation but management have decided upon the market based asset approach and have impaired the carrying value of HIG by £31.0m.

The Company continues to meet its solvency and capital requirements, as required by regulation. As at 31 December 2023, the total equity was £652.0m (2022: £457.9m) and the solvency ratio was above the 130% target management ratio, at 137.3% (2022: 123.2%).

Key performance indicators ("KPIs")
The financial KPIs monitored by the Company are:

	2023 £ m	Restated* 2022 £ m
Gross written premium	1,679.6	1,430.0
Insurance service revenue	1,593.8	1,348.3
Insurance service result	(57.2)	80.3
Loss ratio(1)	85.6%	75.3%
Reinsurance ratio(2)	0.9%	0.3%
Expense ratio(3)	17.0%	18.5%
Expense ratio (including non attributable costs) (4)	20.0%	23.4%
Combined operating ratio (5)	103.5%	94.1%
Combined operating ratio (adjusted) (6)	106.5%	99.0%

(1) Loss ratio is defined as total claims and benefits (including loss component) as a percentage of Insurance Service Revenue.
(2) Reinsurance ratio is defined as net expenses from reinsurance contracts held as a percentage of Insurance Service Revenue.
(3) Expense ratio is defined as insurance service expenses less claims and benefits (including loss component) as a percentage of Insurance Service Revenue.
(4) Expense ratio (including non attributable costs) is defined as all expenses less claims and benefits (including loss component) as a percentage of Insurance Service Revenue.
(5) Combined operating ratio is defined as the sum of the loss ratio, reinsurance ratio and the expense ratio.
(6) Combined operating ratio (adjusted) is defined as sum of the loss ratio, reinsurance ratio and the expense ratio (including non attributable costs).

*Balances as at 31 December 2022 have been restated in line with application of new accounting policies, see

note 1.3.1 to 1.3.3.

Key performance indicators (continued)

The gross written premium can be reconciled to the insurance service revenue reported in the Statement of Profit and Loss and Other Comprehensive Income on page 32 as follows:

	2023	2022 Restated
	£ m	£ m
Gross written premium	**1,679.6**	**1,430.0**
Unearned premium reserve ("UPR") adjustment	(136.6)	(124.9)
Instalment income	42.8	34.8
Administration and other fee income	10.2	9.9
Bad debt expense	(2.2)	(1.5)
Insurance service revenue	**1,593.8**	**1,348.3**

The key non-financial performance indicators monitored by LVGIG (incorporating the Company) are:

Net Promoter Score ("NPS") performance:
- Achieved Loyalty Leader in 2023.

NPS is an important indicator of our customer service which captures customer willingness to recommend us and is benchmarked against our competitors. The survey is managed by YouGov and provides an external and independent perspective. The achievement of Loyalty Leadership is a credit to our frontline teams.

Principal risks and uncertainties

The Group continually assess the principal risks and uncertainties facing our business, monitoring potential impacts and where necessary implementing mitigation and management solutions. Details of our principal risks and uncertainties can be found below and in note 19.

The Risk Function, alongside Compliance and Internal Audit, monitors both known and emerging risks that could affect the Company, while collaborating with the business units to mitigate any identified issues. These risks are monitored as part of the Top Risk Assessment. In 2023, particular focus was on:

- **Underwriting Risk –** the challenges faced by the Company and the wider general insurance industry including; claims inflation trends, the broader macro-economic environment and climate change. Each of these issues are being carefully monitored in order to minimise the impact they could have on underwriting performance. Inflation and economic conditions are constantly monitored such that appropriate allowances are made within pricing. Climate change is increasing the frequency and severity of catastrophic weather events. The business regularly assesses the suitability of external catastrophe models in order to mitigate this risk.
- **Reserve Risk –** best estimate reserves are monitored in light of emerging trends and economic conditions including inflationary pressures. A source of reserve uncertainty is the Ogden Discount Rate, which is due to be revised in 2024. Following changes in market conditions, the outlook is currently more favourable than 12 months ago, however, both the rate and methodology remain unknown. The Company uses regular stress and scenario testing to understand the potential impacts of these sources of risk.
- **Market Risk –** The Group invest financial assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of our insurance liabilities. Our investment portfolio is well diversified and high quality. Whilst financial markets remain volatile, the investment portfolio is being closely monitored to identify risks that need mitigating.
- **Information Security** – there is an increased risk of cyber-attacks, including state sponsored cyber-attacks targeted at the UK, which could result in disruption to national infrastructure or third party organisations in the supply chain. Supported by monitoring of emerging threats and identification of incidents, The Group maintain a coordinated response to cyber events within our local and global Crisis Management framework. Throughout 2023, various actions have been taken to improve the capabilities and effectiveness of AzH cyber defences and abilities to prevent, detect and respond to the risks posed by cyber threats.

Principal risks and uncertainties (continued)

- **Operational Resilience** – there is significant focus on operational resilience in order to mitigate the risk of operational disruption to our customers and other stakeholders, in line with the regulatory requirements set by the FCA and PRA. This includes appropriate testing, scenario analysis, as well as identification and remediation of vulnerabilities. This provides confidence that the business can safely operate within the PRA and FCA impact tolerances. Third parties are monitored to ensure that operations remain resilient.
- **Transformation** – an extensive change programme exists across the Company consisting of business and regulatory priorities. Any cost challenges, changes in scope or delays could impact competitive positioning in the longer term. In the personal business, there is a significant programme of work underway to introduce the Allianz brand into the UK personal lines market, using a phased approach across the different distribution channels.
- **Climate Risk** – physical and transition risks are of key importance to the Company. This has involved significant work in our Underwriting and Investment departments. Quantitative and qualitative assessments of climate risks are undertaken in support of our risk framework.
- **Conduct Risk** – there is continued focus on good customer outcomes, responding to the need of supporting vulnerable customers and ensuring effective communication given the sharp increases in the cost of living. In 2023, The Group continued to enhance our activities, management information and oversight of Conduct Risk throughout the business in line with the Consumer Duty requirements.
- **Brand Risk** – as a significant global financial services brand, Allianz SE is exposed to the risk of negative media coverage and stakeholder perception, including as the result of price increases required to offset the impacts of inflation. This also applies to the LV General Insurance brand which is currently used for personal lines products in the UK. Brand will be a particular focus area as the company aims to transition away from the LV General Insurance brand and introduce the Allianz brand into the UK personal lines market.
- **Regulatory Change** – the Company is required to respond to regulatory changes in a timely manner and in full. Key ongoing activities include the delivery of Consumer Duty implementation, Operational Resilience requirements and Solvency UK reforms.

Future outlook
Market conditions will remain competitive during 2024 driven by peers continuously investing in their capabilities. The Company continues to experience a high inflation environment in 2024. Whilst inflation is expected to decrease during the year, there is a risk of a trend reversal, especially driven by global political instability which can impact supply chains. Interest rates are expected to further decrease during 2024, which will reduce the discounting and investment income benefits experienced in 2023. The Company is well equipped to withstand these headwinds due to its strong customer relationships and its robust financial position. Economic conditions will continue to be monitored and appropriate actions taken to ensure pricing is adequate to cover increased claims costs, whilst offering competitive solutions for customers.

Gross written premium is expected to increase in 2024 with growth across motor and household. The Company will continue to explore new opportunities to expand its offerings to customers. The Company will be striving for growth in the Flow product, following the rebrand to Allianz commencing in March 2024.

A continued focus on pricing excellence and productivity will remain key to improve long-term profitability and enable investment in transformation.

The quota share reinsurance will remain at 40% for 2024.

Going concern
The Directors, having undertaken an assessment, 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 and capital position and is owned by one of the largest property and casualty insurers in the world.

Section 172(1) Companies Act 2006 Statement

Section 172 (1) of the Companies Act 2006 requires the Directors of a Company to act in a way that promotes the success of the company for the benefit of its members as a whole. The Directors of the Company are committed to high standards of business conduct, promoting a healthy corporate culture and understand that striving to achieve the Company's strategic aims will ultimately increase the value of the Company, its parent, the Group and the wider Allianz SE Group.

This statement sets out how the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duties. The Directors have acted in a way that they considered, both individually and collectively, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the year.

The Company's Board is collectively responsible for the long-term success of the Company. The Board is responsible for setting the Company's strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company's purpose, strategy, culture, values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

The Board of the Company meets at least quarterly alongside the board of Directors of its immediate shareholder, LVGIG, the Board of AzH and the boards of Directors of other key regulated entities and holding companies within the Group (collectively, the "Boards"). The Boards have adopted the same terms of reference by which they operate, and the Directors of the Boards are the same. The governance framework applied to the key regulated entities and holding companies within the Group, and the combined approach to governance, ensures that the Company's Board also has regard to the overall strategy, interests and direction of the Group as a whole, when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of the Group, the environment in which the Company and the Group operate and the long-term success of the Company and the Group as a whole.

The Board receives information from across the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. Information is also presented, where relevant, regarding any impact on the Company's or Group's reputation, impact on the environment or on the communities in which the Company or Group operate and other matters set out in section 172 of the Companies Act 2006. The reporting templates for the Board include consideration around stakeholder engagement.

An independent governance review was carried out by Deloitte LLP in 2023 which included assessing the effectiveness of the Board and its committees within its scope. Recommendations from the review were tracked through to completion with outputs reported to the Board at its quarterly meetings. Further information on the review is set out in the Corporate Governance report on page 14.

Stakeholder engagement

This section of the Company's report explains the Company's engagement activities in relation to the Group's customers, suppliers, employees, regulators and other stakeholders relevant to the Company.

Customers

The Board is committed to ensuring good outcomes for customers. Customer centricity is fundamental to the Company's growth and development and is one of five important themes underpinning the Allianz SE business strategy which the Group and the Company have adopted. This is further explained in the Corporate Governance report within the Directors' Report on page 14. In line with Allianz SE's purpose, the Company maintains a strong people care anchor and puts customers at the heart of everything it does. LV General Insurance's brand promise and leading service is a differentiator.

Customers (continued)

The Group's focus is on maintaining high levels of service and supporting its customers. In July 2022, the FCA published the final rules and guidance for a new Consumer Duty that set higher and clearer standards of consumer protection across financial services. It introduced a new principle that stated that firms must act to deliver good outcomes for retail customers. Many requirements of the Consumer Duty were already being met by the Group when the final rules and guidance were published due to its compliance with the PROD 4 requirements of the FCA Handbook. Extensive activity has since taken place to ensure that the Group delivers good customer understanding and support throughout customer journeys. The Group implemented Consumer Duty by the deadline of 31 July 2023. Consumer Duty outcomes are monitored with regular updates provided to the Customer & Conduct Committee, a sub-committee of the Board.

A key method of engaging with customers across the Group's businesses and ensuring that a customer-centric culture is embedded is the Net Promoter Score. The NPS is explained under Key Performance Indicators on page 4. Feedback is sought from customers and the Group's performance across different brands is benchmarked against competitors. The NPS results are a KPI for the Company and the results are shared with the Board and factored into its decision-making. LV General Insurance is considered a loyalty leader with scores ahead of peers.

In addition, on a day-to-day basis, the Group's customer facing people engage and foster relationships directly with its brokers and customers. Direct and indirect feedback received from customers is collated and reviewed, together with other data such as complaints and number of complaints referred to and upheld by the FOS ("FOS"). This information is fed back to the Customer & Conduct Committee for its consideration.

The Customer & Conduct Committee is responsible for overseeing customer conduct matters for the Group. The Customer & Conduct Committee receives reports on a variety of matters including business reports on customer experience and 'voice of customers', conduct risk, product governance including fair value assessment outcomes and new product reviews, and vulnerable customers. The Customer & Conduct Committee reports into the Boards, ensuring that the Directors have sight of customer engagement metrics which are factored into decision making and ensuring good outcomes for customers.

Employees

Whilst the Company does not have any employees, the Boards value engagement with the workforce across the Group. During the year, LVGIG, the Company's immediate parent company, and Allianz Management Services Limited ("AMS"), a subsidiary of AzH, provided administration services and staff resources to the Company and to other Group companies. LVGIG and AMS have a high level of resources and expertise which benefit the Company and the Group. Employee engagement is led by the Chief People and Culture Officer ("CPO") of the Group.

Throughout 2023, there have been regular townhalls in which senior executives (including the Managing Director ("MD") of Allianz Personal) joined the Chief Executive Officer ("CEO") to discuss important topics and answer questions raised by employees. Each year there are a number of leadership conference meetings to share important messages and facilitate discussion and debate. These messages are then cascaded throughout the organisation.

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods in 2023 include the Allianz Engagement Survey ("AES") and additional 'pulse' surveys sent to employees on various topics, virtual townhall presentations and newsletters via the employee intranets.

The AES results include the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect, and is derived from the responses to a specific set of questions in the annual AES.

'Inclusive Meritocracy' describes the Allianz SE Group target culture which is underpinned by the four People Attributes; Be Brave; Inspire Trust; With Heart; and Everyone Counts. The expected values and behaviours rolled out across the Group in 2023 align to these, further details are included under the 'Values and Culture' heading in the Corporate Governance Report on page 15.

The AES results are collated to give a Group-wide result and are also broken down by division and team. Action plans are then developed based on the feedback received within teams. The results of the survey are directly linked to the performance objectives of the members of the AzH Executive Committee and key leaders within the Group. This approach ensures that employee sentiment and impact on the workforce are carefully considered by the leadership team when making decisions. A Work Well Index plus is also used to measure the quality of the work

environment, practices and opportunities.

Employees (continued)

Having a strong focus on Diversity and Inclusion enables Allianz to understand both its customers and people. The Group has a clear Diversity and Inclusion strategy, which covers ’our people’, ‘our customers’ and ‘our brand and reputation’. In 2023, AzH embarked on several initiatives in support of its aim to foster an inclusive environment where a valued and diverse workforce can be heard, contribute, grow and feel a sense of belonging.

The Group is committed to making sure its people are rewarded fairly through regular review of pay levels to ensure they are competitive with market rates. All of the Group’s people are paid at least the Living Wage Foundation rates of pay. In addition to basic pay, our people participate in an incentive scheme which is structured around both individual and business performance. Allianz understands that the needs of its people are different, so through a new flexible benefits platform launched in 2023, the Group give our people the opportunity to select the benefits most suited to their individual needs and lifestyles. AzH engages regularly with Unite, a trade union for some staff within the Group and also with the Employee Consultative Forum (“ECF”), both of which exist to protect and improve employee interests. Discussions with Unite and the ECF are escalated to the Board and its committees as appropriate. The Group is committed to reducing the gender pay gap, the Compensation & Nomination Committee of the Board approves the Gender Pay Gap report each year and has oversight of the work underway towards reducing the gap.

With a number of initiatives already in place through our wellbeing support programme, there has been a focus on our Mental Health First Aiders ("MHFA’s") to provide in person or virtual assistance to all employees on a confidential basis in their time of need to prevent as well as react to situations.

Suppliers

Proposed significant supplier contracts, material either strategically or by reason of size and significance to the Company, are considered by Boards on behalf of the Group, following initial meetings and negotiations by procurement and commercial teams and direct engagement with senior management. In 2023, significant supplier contracts, supported by summary documents, were provided to Boards to enable an informed decision to be made covering areas such as performance, cost, risk and strategic alignment. Suppliers are required to comply with the Group’s Vendor Code of Conduct, which ensures standards are met in relation to ethics, labour and environmental sustainability.

In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Procurement Standard. As a consequence, in 2023, the Boards gave due consideration to significant intended supplier arrangements and their suitability and ability to meet the Group’s requirements including areas such as information security, data privacy, risk, protection and resilience. Alongside this, work was undertaken in 2023 to support greater oversight and resilience of the Group’s third parties following the PRA’s SS2/21 statement regarding the management and oversight of the same, further increasing the governance and control of new and existing relationships.

In line with AzH’s Supplier Relationship Management Framework, relevant executives assume responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance. Regular reports on supplier performance, inclusive of inputs from fellow safeguarding functions such as Information Security, Operational Resilience, and Risk, were made available to the Board and its committees in the course of 2023 to ensure effective oversight and control.

All of these measures come together to form a productive, secure, and mutually beneficial working relationship with each supplier. These strong working relationships with suppliers have enabled the Group to manage costs, mitigate risk, and work collaboratively to support strategic organisational objectives.

Regulators

The Company is regulated by the FCA and authorised and regulated by the PRA. Maintaining a good relationship with the Company’s regulators is a priority for the Board and careful consideration is given to regulatory impacts when making decisions.

Regulators (continued)

Regulations, guidance, policy statements, Dear CEO letters, Dear Chief Risk Officer ("CRO") and Chief Actuary letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account. In addition, the Board carefully considers and takes into account any letters received by the Group from the regulators. In 2023, the Board considered the Periodic Summary Meeting ("PSM") letter from the PRA and received regular updates on progress in relation to findings and action plans from both the PRA and FCA. This informed the planned focus areas of the supervisory engagement throughout the year.

The Board's executive and certain non-executive Directors have regular direct contact both through written correspondence and direct dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which are then brought into Board discussions. Other engagement methods with regulators include regular meetings, responding to regulatory market reviews and attendance at Board meetings.

The Group aims to maintain a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates, recommendations or the regulator's key priorities and objectives are considered and the implementation of recommendations is owned and overseen by the relevant Board. This ensures that regulatory matters are of key importance with a top-down approach led by the Board. In relation to its regulatory requirements, the Board also reviewed and approved its relevant Solvency II Reports, including the Solvency and Financial Condition Report, and the Company's Recovery and Resolution Plan.

Shareholder

The Company has regard to the interests of its immediate shareholder, LVGIG, to AzH and the Allianz SE Group when making decisions. The Company's strategy is aligned with the Group's strategy and the Allianz SE strategy, adapted as necessary for the Company's markets. Allianz SE nominate a non-executive Director to the Board of the Company. In 2023, the Board received regular updates from the Allianz SE Group on key matters being considered. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments.

Community and the Environment

The Group aims to be a leader in sustainability and a committed corporate citizen. The Group focus is on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of Environmental, Social, Governance ("ESG") into all aspects of its business.

The Group, including the Company, has undertaken its own initiatives during the year in the area of ESG. The Board has also reviewed the ESG strategy, analysing the Allianz SE Group strategy in relation to ESG and reviewing how that strategy is implemented in the UK. AzH is fully committed to ESG principles and consideration of its impact in these areas is an important part of Company and Group discussions.

The Group looks at its environmental impact in areas which include underwriting, claims, procurement, investments and throughout the Group's business operations. A transition plan to consider ways of decarbonising the Group's business was launched during the year.

The Group participated in an activity coordinated by the Allianz SE Group to help, following the earthquake in Turkey and Syria and employees also took part in a global initiative, the Allianz World Run.

Examples of other initiatives undertaken by the Group include its range of charitable giving programmes, including partnerships with mental health charities such as Mind, Scottish Action on Mental Health and Family Action.

AzH also undertakes initiatives in its communities, which complement the activities of the Group. Allianz's partnership with the England and Wales Cricket Board ("ECB") provided financial support through #Funds4Runs to help local clubs and communities get back on their feet and support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket. In 2023, AzH donated £100,000 bringing the total amount donated to £400,000 over the four year programme which has now concluded.

Board decision-making
This part of our section 172 statement describes how the Board has had regard to the Company's stakeholders and other matters to be considered under section 172(1) of the Act in some of the key decisions taken by the Board during the year.

Capital Injection and share allotment
Section 172 considerations: promoting the success of the Company for the benefit of the Company's members, long-term consequences, maintaining a reputation for high standards

Stakeholders: shareholders, regulators

During the year the Board approved two separate allotments of shares to its sole shareholder LVGIG, in return for capital injections totaling £190.0m. In approving the subscriptions for shares and capital injections Directors considered the impact on the Company and the views of the shareholder and the regulator as its key stakeholders. The Directors considered the regulatory requirements to maintain a sufficiently robust Solvency Capital Ratio with a buffer above the management ratio. The Board also considered the needs and views of the Company's shareholder, and its ultimate parent company, Allianz SE, who require group companies to be sufficiently capitalised to withstand foreseeable stresses and to comply with local regulatory requirements, safeguarding the long-term success and viability of the Allianz SE Group as a whole. The capital injections were approved by the Board subject to another Group company obtaining a non-objection confirmation from the regulators on an earlier dividend payment. In making the decision, the Board considered the interests of key stakeholders who need the Company and the Group as a whole to maintain a reputation for high standards in decision making and to hold sufficient capital to meet its long-term requirements. After considering these factors, the Directors concluded that the approval of the subscriptions and allotments of shares to its parent company would promote the success of the Company for the benefit of its members.

System of Governance Annual Review
Section 172 considerations: maintaining a reputation for high standards, long term consequences of decisions

Stakeholders: customers, regulators, shareholder

During the year, the Board (together with the Boards approved the review of the Group's System of Governance ("Review"). The System of Governance is designed to ensure that the Group has sound and prudent management of its business and is based not only on UK and EU regulatory requirements, but is necessary to ensure that the Group's business and risk profile aligns with the Allianz SE Group. The Review was considered by the Executive Committee and Risk Committee before receiving Board approval and included the approval of a Statement of Accountability executed by the CEO and Chief Financial Officer ("CFO") to confirm that an effective system of governance exists with appropriate processes and controls. The Review set out its findings and introduced activities to further strengthen the Group's governance framework. The Review was considered a key decision in light of the Board's duty to ensure the Company maintains a reputation for high standards of business conduct and assure the Allianz SE Group that the Company and the Group has a sound and prudent system of governance. In overseeing this important matter, the Board had regard to the requirements of the Company's regulators and interests of the shareholder as well as the potential long term consequences of any decisions made.

Allianz UK Target Culture

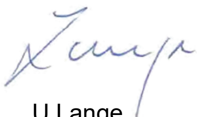
Section 172 considerations: maintaining a reputation for high standards, consequences of decisions in the long term, interests of employees, the impact of operations on fostering relationships with customers and suppliers

Stakeholders: customers, regulators, employees

During the year the Board considered and approved the AzH Target Culture. This articulated how the Target Culture will look as the Group moves forward on its journey measured through the Great Place to Work Accreditation. In reaching the decision to approve the Target Culture, the Board considered the need to create an environment that supports innovation whilst allowing growth, diversification and simplification. The Target Culture is underpinned by a well-defined set of values, which are aligned across the businesses. In setting the Target Culture the Board considered the needs of a number of stakeholders including employees and customers, who are at the core of a strong people and customer care culture, as well as the regulator, which continues to focus on culture as a key regulatory theme. Measuring progress against embedding the Target Culture continues to be a priority and is subject to regular updates at Board meetings. The culture dashboard is a regular report to the Board on performance against key metrics and has helped the Board maintain oversight of progress in embedding Target Culture.

The Company has reported against The Wates Corporate Governance Principles for Large Private Companies which contains further information regarding the governance of the Company, how the Board makes decisions for the long-term success of the Company and its stakeholders. The Corporate Governance Report can be found on page 14.

On behalf of the Board



U Lange
Director

16 May 2024

Directors' Report for the Year Ended 31 December 2023

The Directors present their report and the audited financial statements for the year ended 31 December, 2023.

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:

- Customers, suppliers and others statement;
- Results for the year;
- Principal activities of the Company; and
- Business review and Future prospects.

Stakeholder Engagement
Details of how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that on the principal decisions taken by the Company's Board is contained in the section 172 statement on page 6 to page 11 of the Strategic Report.

Directors
The Directors who held office during the year, and up to the date of signing the financial statements, were as follows:

O R P Corbett (appointed 1 November 2023)
C W T Dinesen (resigned 10 April 2023)
F K Dyson (resigned 29 May 2023)
P J Evans
C J Holmes
U Lange (appointed 30 May 2023)
D J Larnder
S C McGinn (resigned 30 April 2023)
T Robson-Capps
D A Torrance (resigned 31 March 2024)
C G Townsend
S Treloar (resigned 30 June 2023)
J R Vazquez

Directors' Liabilities
A qualifying third-party indemnity was in force during the financial year and at the date of approval of the financial statements.

Results, Future Outlook and Dividends
The results for the year are set out in the Strategic Report on page 2.

An interim dividend of £nil (2022: £10.0m) was paid during the year ended 31 December 2023. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: £nil).

Financial Instruments
The Company's policies in respect of financial instruments are given in note 19 to the Financial Statements.

Going Concern
These financial statements have been prepared on a going concern basis. The Company has a good financial position, with capital in excess of the minimum regulatory requirements. In addition, the Board has reviewed the Company's forecasts for the next 12 months and beyond. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing the financial statements.

Internal Audit
The Audit Committee has reviewed and confirmed that the internal audit function had sufficient resources to enable it to act in an independent and effective manner.

Directors' Report for the Year Ended 31 December 2023 (continued)

Streamlined Energy and Carbon Reporting (“SECR”)
LVGIG fulfils the statutory requirements for SECR which includes disclosure of the Company’s carbon emissions. Under the Companies Act 2006 and SECR Regulations, ‘Large’ companies are required to report their annual emissions in their Directors’ report. It should be noted that the information disclosed relates to several entities within the Group as this is the lowest level of granularity for which the data is collected. Information relating to the Company alone is not available and identical disclosure has been made by all Companies meeting the reporting requirement.

The SECR statement covers the reporting period 1 January 2023 to 31 December 2023 and has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard.

A ‘Dual Reporting’ methodology has been used to indicate emissions using UK electricity grid average emission factors (known as the ‘Location based’ method), and also emissions using supplier specific generation emission factors (the ‘Market Based’ method).

‘Location based’ Method
The total energy consumption for 2023 was 4,432,537.32 kWh (2022: 5,934,775.67kWh) equating to 1,094.213 tCO2e (2022: 1,209.792 tCO2e).

	2023	**2022**
Emissions from combustion of gas (Scope 1)	**254.133 tCO_2e**	**129.136 tCO_2e**
Emissions from combustion of fuel for transport purposes (Scope 1)	**154.093 tCO_2e**	**140.841 tCO_2e**
Emissions from purchased electricity (Scope 2)	**548.635 tCO_2e**	**585.358 tCO_2e**
Emissions from Transmission and Distribution (Scope 3)	**20.769 tCO_2e**	**22.725 tCO_2e**
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	**116.583 tCO_2e**	**175.117 tCO_2e**

Carbon intensity: Emissions of tCO2e/full-time equivalent during 2023 was 0.319 tCO2e (2022: 0.319 tCO2e)

However, LVGIG's strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (“REGO”) certificates. Through this strategy, within the above 2023 total energy consumption, LVGIG has sourced a total of 2,649,457.56 kWh (2022: 3,026,983.46 kWh) of REGO backed (zero emission) electricity equating to 100% (2022: 100%) of total electricity use.

'Market Based' Method

The total energy consumption for 2023 was 4,432,537.32kWh (2022: 5,934,775.67kWh) equating to 524.809tCO2e (2022: 601.709 tCO2e).

	2023	**2022**
Emissions from combustion of gas (Scope 1)	**254.133 tCO_2e**	**129.136 tCO_2e**
Emissions from combustion of fuel for transport purposes (Scope 1)	**154.093 tCO_2e**	**140.841 tCO_2e**
Emissions from purchased electricity (Scope 2)	**0.000 tCO_2e**	**0.000 tCO_2e**
Emissions from Transmission and Distribution (Scope 3)	**0.000 tCO_2e**	**0.000 tCO_2e**
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	**116.583 tCO_2e**	**175.117 tCO_2e**

Carbon intensity: Emissions of tCO2e/full-time equivalent during 2023 was 0.153 tCO2e (2022: 0.159 tCO2e).

Streamlined Energy and Carbon Reporting ("SECR") (continued)

Energy Efficiency actions taken during 2023:

As the Company consolidates the office portfolio, the Allianz Buildings Minimum Performance Criteria has been utilised to select the most energy efficient office space available. Part of this strategy also entails the installation of electric vehicle charging points and donating any excess office furniture to local charities and schools.

- As part of consolidation and refurbishment the following actions were taken across several sites (3 sites in total): Adapted landlord energy efficient LED light fittings and PiR controls (movement sensors) have been updated.

The Company is committed, via an interim target, that by 2025 the Company will aim to reduce GHG emissions per employee by 50 % versus a 2019 baseline across Scope 1, Scope 2, and selected Scope 3 emissions. For year-end 2030, the Company target GHG emission reductions of 70 % and for year-end 2029, -65 % versus a 2019 baseline.

Key levers for GHG emission reduction will be the areas of Renewable Electricity, Buildings, as well as Fleet, Business Travel, and Procurement. In the area of Renewable Electricity, the Company source 100 % renewable electricity from 2023 onwards and implement energy efficiency measures. For Fleet and Business Travel, the Company aims to shift to a fully electric corporate car fleet by 2030 at the latest, achieve a 40 % reduction of GHG emissions from travel activities by 2025 compared to a 2019 baseline. For Procurement, the Company will ask 100 % of global framework vendors in our supply chain that provide services globally to establish a public commitment to net-zero GHG emissions in line with the 1.5 °C path by 2025.

Corporate Governance Report

For the year ended 31 December 2023 the Company applied the Wates Corporate Governance Principles for large private companies ("Wates Principles") to its business and this report sets out how the Wates Principles were applied.

The Company is a wholly owned subsidiary of LVGIG, which is a wholly owned subsidiary of AzH, and leverages the governance structure of the Group. The composition of the Company's Board and that of the other key regulated entities and key holding companies are aligned, the same Directors sit on these Boards and apply the same Group governance structure.

Principle One – Purpose and Leadership

Purpose and Strategy

The Company's purpose of "We Secure your Future" is aligned with that of the Group and the wider Allianz SE Group. The Group's and the Company's ambition is to be the most recommended by customers and partners, to attract and retain the best people and consistently exceed target returns and be recognised as leading the industry in its approach to ESG. This purpose and ambition is implemented through commitment to the Allianz SE Group's business strategy of "Simplicity at Scale". The Company aims to deliver attractive and consistent returns to its immediate shareholder and consequently to the Group and Allianz SE Group.

In line with the Company's purpose, the Board sets its strategy and oversees performance against the strategic objectives. The Company's strategy is approved by the Boards as a part of the Group's strategy as well as being discussed and agreed with the ultimate shareholder, Allianz SE, through the annual Planning and Strategic Dialogue processes. The Chair is responsible for leading Board discussions on strategy matters. The aligned strategy of the Group is then segmented and the Company's Board and senior leadership team focus on the Company's part in the wider strategic plans and how these will be delivered and aligned with the Company's purpose.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle One – Purpose and Leadership (continued)

Purpose and Strategy (continued)
The CEO is responsible for delivery of the overall strategy of the Group, along with the Executive Committee, which includes senior leadership from Allianz Commercial, Allianz Personal, Allianz Specialty and central functions which support the Group. The MD of Allianz Commercial is responsible for implementation of the Company's commercial strategy and there is an Allianz Commercial leadership team to support the MD. The personal lines business is the responsibility of the MD of Allianz Personal, supported by the Allianz Personal leadership team. The MD of Allianz Specialty is responsible for implementation of the Company's specialty strategy and there is an Allianz Specialty leadership team to support the MD. In addition there is continued focus on operating in an ethical, environmentally friendly and sustainable manner and ensuring employees of all backgrounds feel included and able to progress.

Values and Culture
The Group's values and behaviours underpin its culture and are embedded in day-to-day operations and decision-making. The Group's people help to shape the culture of the business enabling it to deliver culture outcomes for customers, employees, and society. In line with AzH's purpose, 'We Secure Your Future', LV General Insurance maintains a strong people care anchor and puts customers at the heart of everything it does. LV General Insurance's brand promise and leading service is a differentiator.

To strengthen the Group's commitment to culture, the appointment of the Head of Culture and Organisational Development was completed in 2023 to enable focus on the oversight, implementation and embedding of initiatives derived from the culture action plan.

The Board has a strong emphasis on integrity and honesty. During 2023, a programme to roll out a common set of values and align them to the Group purpose, 'we secure your future', was completed. The values of Be Brave; Inspire Trust; With Heart; and Everyone Counts, alongside the associated expected behaviours, have set expectations for employees and are reinforced through the Group's policies and practices.

The values are used to assess the performance of employees and are embedded into the recognition platform. Furthermore, in 2023 the Group initiated a programme to engage its leadership population on the topic of purposeful leadership to maintain continued focus on delivering to purpose and building a customer-centric culture.

People policies are being aligned across the Group's businesses to provide a consistent approach that explicitly considers supporting the delivery of good customer outcomes across the organisation.

In 2023, there was a review of the independent third-party culture assessment, which was originally done in 2021. This measured progress made against the Group's culture ambitions. Scores improved across the majority of measured archetypes, with customer-centricity remaining our strongest archetype and seeing the most significant improvement. The Boards reviewed the findings and actions are to be integrated into the broader culture action plan.

The Board recognises that Diversity and Inclusion ("D&I") is fundamental to AzH's ability to understand representation within the workforce and measure progress. D&I is a key aspect of culture and therefore a critical measure of success for AzH.

When the Group procures products and services from third parties, it looks to do so in a sustainable manner and with an unwavering commitment to transparency within any supply chain. With respect to Allianz's own products and services, they must always be clearly explained and honestly marketed. AzH uses its sustainable procurement charter to encourage its suppliers to adopt and develop sound ESG practices. For tender assessments, AzH will apply ESG factors, as a way of prioritising suppliers that have embedded sustainable and ethical practices within their organisation. AzH will also provide support and education to suppliers who are invested in ESG.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle One – Purpose and Leadership (continued)

Values and Culture (continued)
The Group's ESG strategy is embedded within the business and has been reviewed by the Board. Under this strategy AzH 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 AzH complies with all relevant laws and regulations, has high standards of internal control and risk management, and that the business is run with integrity. AzH knows that by acting responsibly it can provide products and services that meet its customers' needs, reduce the impact of its operations by being environmentally efficient and help the transition to a low carbon economy.

LVGIG undertakes its own initiatives in its communities, which complement the activities of the Group. These include LVGIG's partnership with the England and Wales Cricket Board ("ECB") which concluded in 2023, and further details of which are set out on page 9 in the Section 172 statement. In addition, charity and community groups run by employees in each LVGIG regional office supported local community initiatives through fundraising, grants and volunteering events.

LVGIG also completed a third year working with charity partner, Family Action, who have been building stronger families since 1869. Family Action transforms lives by providing practical, emotional and financial support to those who are experiencing poverty, disadvantage and social isolation across the country. They do this by working with 60,000 families through 200 community-based services. Thousands more are supported with financial assistance through education and welfare grant programmes. LVGIG is supporting the FamilyLine service by donating £1.0m over the duration of the three year partnership through corporate donations, fundraising and charity matching. FamilyLine is a free national helpline that provides support to adult family members on all aspects of family life issues via telephone, text message and email. The impact of the pandemic crisis and the pressures associated with the rise in cost of living has seen a significant surge in families requiring ongoing and additional support and the funding assists Family Action to continue to allow their services to meet the growing demand. In addition, employees have signed up as trained volunteers to support callers through befriending activities.

Principle Two – Board Composition

Composition, Size and Structure
As of 31 December 2023, the Board of the Company comprised six independent non-executive Directors (including the Chair), a shareholder nominated non-executive Director and two executive Directors. During the year, the O R P Corbett was appointed to the Board on 1 November 2023 as an independent non-executive Director, whilst C Dinesen stepped down from his role as a non-executive director on 10 April 2023. Following the financial year end, D A Torrance stepped down from his role as a non-executive director on 31 March 2024.

The executive Directors are the CEO (C J Holmes), and the CFO (U Lange). U Lange was appointed on 30 May 2023, whilst F K Dyson stepped down from his role as CFO on 29 May 2023. S Treloar and S C McGinn stepped down from their roles as Allianz Personal CEO and Allianz Commercial CEO on 30 June 2023 and 30 April 2023 respectively.

The role of the Chair (being the Chair of the Boards as well as the Company) and the role of CEO are separate and clearly defined. The Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making.

The CEO is responsible for executing the strategy of the Company with support from the AzH Executive Committee.

The current composition of the Board is considered appropriate for the size and nature of the business, and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle Two – Board Composition (continued)

Balance and Diversity

The Board remains committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. Diversity and inclusion is an important topic within the Group and is fully supported by the Board and the Executive Committee.

Within the Group, a diversity and inclusion forum sponsored by the CEO develops the diversity and inclusion action plan. During the year, a member of the Executive Committee was also on the Allianz SE Group Global Inclusion Council that develops and drives the global strategy. The Group further developed a range of employee-led networks across the business which specialise in and promote aspects of diversity and inclusion. These include working parents and carers, intergenerational working, gender balance, LBGTQIA+, cultural and ethnic diversity, armed services, disability and long-term health conditions and mental health. Further details on Gender Pay Gap reporting by AzH are provided within Principle Five of the Corporate Governance report.

In relation to the Board, as at 31 December 2023 two of the nine members (22%) of the Board were female. New appointments to the Board are recommended by the Compensation & Nomination Committee after consideration of the Board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Board recognises that its own membership is not as diverse as it should be and this will be taken into account as and when new Directors are appointed to the Board, including when existing non-executive Directors come to the end of their term in office.

The non-executive Directors bring a broad range of experience and skills to the Board which are highly relevant to the insurance sector and therefore they provide objective and constructive challenge to the executive Directors.

Effectiveness

An external provider is engaged to carry out a Board effectiveness review every three years and in the intervening years there are annual Board self-assessment effectiveness reviews undertaken. The effectiveness reviews cover the Company and other entities within the Group.

During 2023 an externally facilitated governance review (the "2023 Review") was carried out by Deloitte LLP.

The 2023 Review inter alia, covered Board and Board Committee effectiveness in all respects and also considered specific areas such as ensuring that customer outcomes and conduct risks were fully considered in all major decisions. The methodology used included documentation reviews, Board and senior management interviews, observation of Board and committee meetings and workshops. Reports from the 2023 Review were considered at Board and committee meetings. The 2023 Review concluded that there have been material improvements in the effectiveness of the Board and its committees relative to the outcomes from the 2021 review.

Opportunities for improvement were identified from the 2023 Review and actions plans drawn up with progress against the embedding of actions considered by the Board and relevant committees at quarterly intervals. Since the Review many improvements have been made and all actions have been closed.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. During the year, O Corbett was appointed as an independent non-executive Director and received a full induction, spending time getting to know the business and key individuals within it.

A Board on-site day was organised in 2023 when Directors had the opportunity to visit the Group's Specialty business and meet key management personnel operating within that location. Board on-site days have also been scheduled in 2024 to build greater awareness amongst Directors around the cultural feel, situational context and office climate as well providing an opportunity for direct engagement with employees.

A schedule of Board training and deep dive topics is maintained by the Company Secretary which evolves based on the Board's development and training requirements. External advisors are invited for deep dive and training sessions on various topics as required (see further below) in order to support the ongoing professional development of Directors. Non-executive Directors have access to the Company Secretary and can take independent professional advice at the Company's expense.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle Two – Board Composition (continued)

Effectiveness (continued)

During the year, the Directors received training by participating in quarterly deep dive sessions with management. These sessions are structured to enable updates and in-depth discussion on certain topics. The deep dive sessions held during the year covered varied topics including: Diversity & Inclusion; the IT service improvement plan; change portfolio; non-financial risk management framework (aimed at enhancing Allianz UK's risk and control framework for non-financial risks which meets the requirement of the Group and the needs of the UK business); model governance and machine learning (Business and Technology based transformation programme for the Commercial Business); IFRS 9/17 transition; commercial transformation; and Solvency II reforms.

Principle Three – Director Responsibilities

Accountability

The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. The Board held quarterly meetings during 2023 as well as a strategy session with members of the Executive Committee.There were also a number of ad hoc meetings during the year.

The agenda for each Board meeting is considered by the Chair, CEO and the Company Secretary to ensure that all regulatory and governance matters are considered appropriately. This ensures that the Board can effectively carry out its responsibilities.

The Group policies, including those concerned with Solvency II requirements, are applied to the operation of the Company's Board and its function, as well as to the wider business. Group Solvency II policies, in particular the Governance and Control Policy, are reviewed and approved annually to ensure continued relevance and effectiveness.

Individually, each Director is required to perform their role in accordance with prescribed role profiles and competency requirements. Annual Board Fit and Proper assessments as part of the Senior Manager and Certification Regime processes help to ensure the Directors remain "fit and proper" to undertake their duties (both fiduciary and regulatory) and responsibilities to the Company.

All Directors are expected to report any interests they have including any potential conflicts of interest as they arise. The Directors note interests at each Board meeting (including Board committee meetings). Where required, appropriate mitigations to actual or potential conflicts are put in place, including where necessary a member excused themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Board Committees

The composition of the Company's Board and that of the other key regulated entities and holding companies within the Group are aligned, so the same Directors sit on these Boards, with each Company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda. The Boards and the Company's Board delegate certain activities to committees; the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee ("FICO"). All of these committees are chaired by a non-executive Director who provides constructive challenge and oversight across the work carried out by those committees. During 2023, the Finance & Investment Committee had one non-executive Director member and was chaired by the CEO. Following the financial year end, the Finance and Investment Committee's governance was changed making it a sub-committee of the Executive Committee. Rolling forward agendas for all the Board committees are reviewed at quarterly committee meetings and updated as required, to ensure members have an advanced view of the key matters for consideration throughout the year.

The implementation of the Company's strategy is delegated by the Board to the CEO who is supported in this by the Executive Committee and its sub-committees which consist of the accountable executives for the Group.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle Three – Director Responsibilities (continued)

Board Committees (continued)

The Board committees consider matters for the Group as a whole and matters which pertain to a particular division or Group company, as required. During the year, the terms of reference of the Board committee were reviewed and updated to ensure that duties and authorities delegated to the committees were clearly set out and defined and the allocation of responsibilities between the committees was clear. However, the Board retains ultimate responsibility for decisions in relation to matters reserved under its terms of reference and where relevant each Board committee recommends matters put to it to the Board for approval.

Integrity of Information

The provision of clear, precise and relevant management information and reports to the Board is fundamental to achieving good corporate governance and efficient decision-making and operations.

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the Board receives accurate, regular and timely information about the performance of the business. Board reporting templates ensure consistency of reporting across the Board and committee meetings. Internally facilitated training for paper authors and chairs was held during the year to reinforce best practice in relation to the provision of management information and meeting processes. Appropriate service level agreements are in place to ensure Board and committee packs are delivered to agreed timescales allowing sufficient time for Directors to review ahead of meetings and facilitate useful debate and challenge at meetings. The efficacy of the processes is reviewed by the Board as part of the Board Governance Effectiveness review undertaken annually in addition to interim feedback provided by the Directors on processes and management information.

Information provided to the Board is wide-ranging and includes financial information, review of actual performance against plan, strategy updates, project updates, certain metrics and data and market developments.

The internal audit function prepares an annual risk-based plan of audits, derived from an audit universe, defined and revised annually, covering the complete system of governance. This includes the controls surrounding the processes for collecting and reporting data. The annual plan is approved by the Audit Committee with quarterly reporting on progress to the Audit Committee and the Boards. The Company's Board is therefore aware of and has oversight of these matters as appropriate and relevant to the Company and its activities. A consolidated assurance plan is also considered by the Risk Committee annually providing a summary of assurance coverage from the three line assessments of controls and governance.

Principle Four – Opportunity and Risk

Opportunity

The Board actively considers and approves strategic opportunities as these are key drivers of the strategy to outperform the Group's chosen markets. This incorporates the appropriate regulatory, customer and commercial considerations to review opportunities and to ensure successful delivery. The Executive Committee meets monthly to review the opportunities pipeline, set priorities and to provide oversight with required escalations to the Board. Strong alignment exists with Allianz SE Group's purpose and strategy.

The Board reviews and approves strategy through the Strategic Dialogue process and as part of this exercise considers threats and opportunities (including the Group's risk appetite). Further information on the strategy setting process is provided under Principle One.

Risk

An enterprise risk management ("ERM") framework forms the overarching framework for management to deal with the various risks the Company may encounter, as well as their tracking and monitoring. This also ensures that the Group has processes in place by which it assesses the risks that the Company is exposed to, both on a current and forward-looking basis.

All businesses face uncertainty, and the challenge for management is to determine the nature and extent of uncertainty the Company is prepared to accept, in pursuit of its strategic objectives, as it strives to grow stakeholder and customer value. Uncertainty presents both risk and opportunity, with the potential to either erode or enhance value.

The ERM framework forms the overarching framework for management to deal with the various risks the Company may encounter, as well as for how they are monitored and reported. This also ensures that the Group has processes in place by which it assesses the risks to which it is exposed, both on a current and forward-looking basis.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle Four – Opportunity and Risk (continued)

Risk (continued)

The Board delegates oversight of risk management to the Risk Committee and the CEO. The CRO is a member of the Executive Committee and the Executive Risk Committee and a standing attendee at the Risk Committee and the Board. The CRO is supported by the Risk function which is made up of qualitative and quantitative risk experts. However, managers within business units remain collectively and individually responsible for managing risk in their own areas.

To ensure that the Company is as well prepared as possible to identify and manage risks in a rapidly changing environment, there are a number of key risk management processes and policies in place. These processes are enabled by an appropriate governance structure to support effective risk management processes and the appropriate risk culture.

The Group has an Internal Control Framework, which is articulated in the Board Governance and Control Policy. The Board is able to make informed and robust decisions based on information delivered via risk management systems described in the Risk Policy. The Risk Committee monitors risk management performance and the evolution of the risk profile through the quarterly Own Risk and Solvency Assessment ("ORSA") process. Any significant deviations from the policy or other issues identified are communicated to the Board by the Risk Committee.

The Corporate Governance team, overseen by the Chief Legal Officer and Company Secretary, supports the Board and Executive Committee in fulfilling their responsibilities in respect of the effectiveness of the Company's system of governance. The Executive Committee consists of senior leadership within the Company who oversee the Company's system of governance and seek assurance that the governance framework is appropriate and effective. The system of governance is subject to annual review to ensure it continues to facilitate sound and prudent management of the business of the Company (with a Statement of Accountability being signed by the CEO and CFO and provided to the Allianz SE Group as part of its own governance review).

Responsibilities

The Board's responsibilities include approving the strategy, strategic asset allocation, establishment and maintenance of the system of internal control, approval of new appointments to FCA/PRA Controlled functions and oversight of the overall operation of the Company.

The Board is responsible for setting and reviewing the Company's risk appetite. The Company has a written statement confirming the degree of uncertainty (or risk) that the Company is willing to accept in the pursuit of its goals. The Company has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements.

In relation to the objectives in the annual corporate plan, the Company aims to ensure that it is not unduly exposed to any event or combination of events that could cause a variance in result inconsistent with the stated risk appetite. The Risk Committee is responsible for oversight of risks, both current and emerging. Mitigation activities are agreed by the Risk Committee and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Function via the risk management systems in place.

The Company has established clear communication channels. Internally, risks are discussed and escalated to relevant committees including the Risk Committee. Externally the Company's risk profile is outlined in the Annual Report and Financial Statements, and Solvency and Financial Condition Report.

Principle Five – Remuneration

The Compensation & Nomination Committee of the Boards is responsible for oversight of the Group's compensation strategy and making recommendations to the Boards on matters concerning the remuneration of the Directors and senior executives.

The Group Remuneration Strategy and policies ensure that remuneration of all Group employees is aligned to the performance of the business and adheres to its values and behaviours. The Remuneration Policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered.

Directors' Report for the Year Ended 31 December 2023 (continued)

Principle Five – Remuneration (continued)

During the year, the Compensation & Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing and publishing the Gender Pay Gap Report for 2022 (published in 2023). The Gender Pay Gap Report emphasises the approach of the Board to being an active and 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. The reports can be found on the LV website.

The remuneration of employees below Senior Executive level is overseen by the Executive Committee.

Remuneration Decisions

The Compensation & Nomination Committee consists of independent non-executive Directors only. The Compensation & Nomination Committee is responsible for reviewing compensation strategy and applying it to Senior Executive positions to attract and retain quality people and enable the delivery of the Company's strategy. There is a robust process in place to assess how material risk takers have managed material risk events and risks therein, including conduct related risks, and influenced the risk profile of the business, requiring adjustments to their remuneration. The process of reviewing risk takers performance is considered with input from Compliance, Audit, Risk and HR as part of the Risk Adjustment Review and their findings are presented to the Compensation & Nomination Committee for consideration. External benchmarking of remuneration is undertaken and is used when setting the remuneration of the Group's Senior Executive population. The Committee also oversees the design and operation of the performance management framework in meeting AzH's objectives and local regulatory requirements and suggests changes to it.

Setting Remuneration

Compensation is set with reference to the Group's Remuneration Policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE Group's Compensation Committee. The Compensation & Nomination Committee determines total remuneration in relation to Directors (executive and non-executive) with approval by the Board. The Compensation & Nomination Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. Different stakeholder groups such as customers and the shareholder are considered, including the Committee being satisfied that customers had been protected, when determining appropriate levels of bonus/performance related payments. The Compensation & Nomination Committee also takes into account relevant UK regulatory guidance on remuneration. Directors and Executive Team who sit on subsidiary Boards are remunerated at Group level and are not remunerated separately for their subsidiary Board positions. The Directors' remuneration is disclosed in note 25.

Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonus (and long term incentives for senior executives) driven by a combination of personal and business performance. The approach is aligned for employees of all levels and remuneration, particularly bonuses, with the Group's purpose and values and achievement of strategy.

Principle Six – Stakeholder Relationships and Engagement

External Impacts

Good and effective governance underpins and drives a number of key business objectives including: growth and profitability, product performance, customer satisfaction, co-operative arrangements with third party stakeholders and suppliers, and sustainability.

The Group and the Company are acutely aware of the broader impact the business has on its various environments, its customers, suppliers and society in general, and adheres to and participates in the Group's corporate social responsibility policies and practices. In addition, sustainability is a key objective of the business, informing what it does and in particular the goods and services it procures.

Throughout 2023 the Company focused a significant amount of time on creating an environment where employees of all backgrounds, felt included and were able to succeed, and also ensuring that, the Company continues to operate in an ethical, environmentally friendly and sustainable manner.

Stakeholders

The Company has a number of key stakeholders including: suppliers, customers, brokers, regulators, its shareholder and the wider Insurance industry. Details of how the Company and its Directors engage with stakeholders can be found in the section 172 statement on page 6.

Directors' Report for the Year Ended 31 December 2023 (continued)

Independent Auditors

Pursuant to section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been re-appointed as auditors at the end of 28 days beginning with the day on which copies of these report and financial statements are sent to Members.

By order of the Board

U Lange
Director
16 May 2024

Statement of directors' responsibilities in respect of the financial statements

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 UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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 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 also 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.

The directors are responsible for the maintenance and integrity of the company's financial statements published on 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the 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.

On behalf of the Board

U Lange

16 May 2024

Independent auditors' report to the members of Liverpool Victoria Insurance Company Limited

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 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2023 (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2023; the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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.

Other than those disclosed in Note 24 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

The company is a UK general insurer which writes direct and broker distributed business, principally for the sale of motor and household insurance products.

Overview

Audit scope

- We performed a full scope audit of the financial statements of the company in accordance with our risk assessment and materiality. In doing so, we also considered qualitative and quantitative factors across all financial statements line items in the financial statements.

Key audit matters

- Adoption of IFRS 17 - transition and restatement of comparatives.
- Valuation of insurance contract liabilities for incurred claims and associated reinsurance contract assets – assumptions and judgements.
- Valuation of investment in Highway Insurance Group Limited

Materiality

- Overall materiality: £15.9m based on 1% of insurance revenue.
- Performance materiality: £12.0m.

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.

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.

To reflect the audit effort associated with the adoption of IFRS 17 in the year, "Adoption of IFRS 17 – transition and restatement of comparatives" is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 17 - transition and restatement of comparatives.	
Refer to note 1 to the financial statements for disclosures of related accounting policies and details of transition. IFRS 17 became effective for periods beginning on or after 1 January 2023. As a result, IFRS 17 has been adopted in these financial statements.	In performing our audit work over the transition to IFRS 17, and restatement of comparative financial statements (including the opening statement of financial position), we engaged our actuarial specialists and the procedures we performed included the following:
The transition to IFRS 17 has introduced new financial statement line items, accounting policies and disclosures, requiring significant changes to the measurement of transactions and balances in the financial statements, including new areas of judgement and estimation.	● Evaluated the design and implementation of the relevant controls in place in respect of the IFRS 17 transition;
International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8") requires that when the impact of adopting a new accounting standard would be material to the financial statement comparatives, these comparatives should be restated. As a result, the opening	● Assessed whether the judgements, methodology and assumptions applied by management in determining their accounting policies are in accordance with IFRS 17;

balance sheet at 1 January 2022 and the 2022 comparatives have been restated.	
The comparatives have been calculated by management by adjusting the reported position on an IFRS 4 basis using new additional IFRS 17 actuarial processes. These adjustments require a number of significant judgements and estimates including:	● Assessed the appropriateness of the methodology, assumptions and input parameters used to derive the risk adjustment and validated that the adjustment reflects management's view of the compensation the company requires for non-financial risks and is consistent with the confidence level disclosed;
● The methodology and assumptions in respect of determining the risk adjustment; and	● Evaluated the appropriateness of the methodology used to determine discount rates, assessed the appropriateness of the payment patterns and independently recalculated the impact of discounting; and
● The determination of the bottom up discount rates (including choice of illiquidity premium) and payment patterns used to derive the cash flows for incurred claims. In addition to these judgemental areas focus was given to the implementation of new models that had been created to produce the IFRS 17 results.	● Tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the 2022 comparatives and opening position at 1 January 2022. Based on the work performed and evidence obtained, we consider the judgements and estimates related to the IFRS 17 transition and restatement of comparatives as being appropriate.
Valuation of insurance contract liabilities for incurred claims and associated reinsurance contract assets – assumptions and judgements.	
Refer to note 1, 2, 9 and 10 to the financial statements for disclosures of related accounting policies and balances including the insurance contract liabilities for incurred claims ('LIC') and the associated reinsurance contract assets for incurred claims ('AIC').	In performing our work over the valuation of insurance contract liabilities and the reinsurance contract assets our actuarial specialists were used, where appropriate. Our procedures included the following:
The valuation of insurance contract liabilities and the reinsurance contract assets are inherently uncertain and contain material estimates. The most subjective element of insurance contract liabilities is the estimated cash flows in relation to the incurred but not yet reported claims, which form part of the LIC, and the associated reinsurers' share of incurred but not yet reported claim cash flows, which form part of the AIC.	● Understood and evaluated the process and the design and implementation of controls in place to determine the insurance contract liabilities for incurred claims and the associated reinsurance contract assets;
The ultimate cost of outstanding claims is estimated by using a range of standard actuarial projection techniques. Management relies on actuarial projections to estimate the settlement cost of future claims and the associated fulfilment cashflows, incorporating, in an unbiased way, all reasonable and supportable information available. They reflect current estimates from the perspective of the entity, include an explicit adjustment for non-financial risk (the risk adjustment) and are discounted using a discount rate that reflects the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. The judgements and assumptions used, together with estimates of the related claims handling costs, can be materially impacted by numerous factors including:	● Tested the completeness and accuracy of claims data used in the actuarial projections for the LIC;
●The underlying volatility attached to estimates for the more significant classes of business, such as personal motor and household business. For these lines of business, small changes in assumptions can lead to large changes in the level of estimate held;	● Applied our industry knowledge and experience and compared the methodology, models and assumptions used against recognised actuarial practices;
●The methodology and assumptions used by management to allow for the ongoing impact of inflation on claims experience;	● For the undiscounted best estimate liabilities, developed independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain classes;

●The risk of inappropriate assumptions used in determining current year estimates for large losses or events and Periodic Payment Orders (‘PPO’) and changing claims patterns;	● Over the remaining classes of business, for the undiscounted best estimate liabilities we have evaluated the methodology, assumptions and management's models or performed a diagnostic check to identify and investigate any anomalies;
●The methodology and assumptions used by management to calculate the discount rates, the most subjective component being the illiquidity premium;	● For the PPOs, we have evaluated the undiscounted best estimates in the context of the information available as at the date of our audit opinion;
●The valuation of the AIC is uncertain due to the significant degree of judgement applied in valuing the underlying insurance contracts that have been reinsured and the complexity of the application and coverage of the reinsurance programme; and	● Evaluated the appropriateness of the methodology used to determine discount rates, assessed the appropriateness of the payment patterns and independently recalculated the impact of discounting including assessment of the illiquidity premium selected;
●The appropriateness of methodologies and assumptions adopted to calculate the amount of the risk adjustment to reflect the entity’s view of the compensation that it requires for bearing non-financial risk.	● Tested the accuracy of application of reinsurance contract terms to determine the relevant reinsurance fulfilment cash flows; and
	● Assessed the consistency of the methodology, assumptions and input parameters with the previously audited risk adjustment at 31 December 2022 and management's view of the compensation the company requires for non-financial risks. Tested that the risk adjustment is consistent with the confidence level disclosed.
	Based on the work performed and evidence obtained, we consider the assumptions and judgements used to value the liability for incurred claims and the associated reinsurance contract assets to be appropriate.
Valuation of investment in Highway Insurance Group Limited	
The company holds a 100% investment in Highway Insurance Group Limited ('HIG'), which in turn owns 100% of the share capital of Highway Insurance Company Limited ('HICO'). HIG has no trading activities of its own and therefore is 100% supported by the value generated by HICO.	Our work to address the valuation of the company’s investment in group undertakings included the following procedures:
HICO has been loss making in 2023, 2022, and 2021. This casts doubt over the recoverable amount of the company's investment in this subsidiary.	● We have analysed and challenged management’s impairment review and the cash flow forecasts they have developed to ascertain a value in use for the HICO business, including a terminal value;
In accordance with the requirements of IAS 36 “Impairment of assets” management has undertaken an impairment review and determined the value in use based on discounted future cash flows and has also considered the value of the regulatory net assets of HICO under Solvency II and how that informs the judgements made.	● We have compared the discount rate assumption to an estimated cost of capital determined using comparable listed company data;
As a result, management has recorded an impairment of £31m, which is disclosed in the financial statements. The key assumptions in their model to which the outcome is most sensitive are the loss and expense ratios, and the discount rate, which all involve varying degrees of subjectivity. It is the levels of uncertainty and subjectivity that contribute to this being determined a key audit matter.	● We have assessed management’s ability to forecast by comparing the prior year forecasted results to the current year actuals for income and expenses; and
Refer to Note 1 for the accounting policies, and Notes 2 and 8 for disclosure of the related judgement and estimates in respect of the investments in group undertakings.	● We have challenged and tested management's impairment analysis including reviewing the appropriateness of the assumptions, performing sensitivity analysis, and testing the underlying source data used in management's valuation.

	Based on the work performed and evidence obtained, we consider the valuation of Highway Insurance Group Limited to be appropriate.

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.

We considered quantitative and qualitative factors to ensure that we had obtained sufficient coverage across all financial statement line items at a total company level. We applied our materiality benchmark across each financial statement line item to identify which items were material to the audit of the company.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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 company materiality	£15.9m.
How we determined it	1% of insurance revenue
Rationale for benchmark applied	The materiality amount selected is appropriate to the size and nature of the business. Expressing materiality in terms of insurance service revenue, one of the key metrics relevant to users of the financial statements, provides a good representation relative to the size and complexity of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £12.0m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2023 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 Statement of directors' responsibilities in respect of the financial statements, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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 financial statements such as the Companies Act 2006. 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 management bias in accounting estimates and judgemental areas of the financial statements as shown in our "key audit matters". Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and/or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors, Audit Committee and the Risk Committee;
- Procedures relating to the valuation of insurance contract liabilities for insured claims and the associated reinsurance contract assets, as described in the related key audit matter above;
- Identifying and testing journal entries, in particular any journal entries that are determined to demonstrate fraud characteristics; and
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete

populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

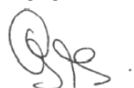
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained 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 16 years, covering the years ended 31 December 2008 to 31 December 2023.



Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 May 2024

Statement of Profit and Loss and Other Comprehensive Income
For the Year Ended 31 December 2023

	Note(s)	2023 £ m	2022 restated £ m
Insurance service revenue	9	1,593.8	1,348.3
Insurance service expenses	3, 9	(1,636.3)	(1,264.5)
Net expenses from reinsurance contracts held	9	(14.7)	(3.5)
Insurance service result		**(57.2)**	**80.3**
Interest revenue	4(a)	48.6	24.2
Other investment expenses	4(b)	(0.9)	(9.6)
Net impairment losses on financial assets	4(c)	(3.9)	(5.0)
Investment expenses	4(d)	(2.3)	(2.1)
Dividends received	4(e)	70.0	-
Net investment income		**111.5**	**7.5**
Finance expenses from insurance contracts issued	5(a), 9(a)	(27.8)	(15.7)
Finance income from reinsurance contracts held	5(b), 9(c)	4.0	4.2
Net insurance finance expenses		**(23.8)**	**(11.5)**
Net insurance and investment result		**30.5**	**76.3**
Other finance costs		(0.1)	-
Impairment of investment in group undertakings	8	(31.0)	(35.0)
Other operating and administrative expenses	3	(46.9)	(66.5)
Loss before tax		**(47.5)**	**(25.2)**
Income tax receipt/(expense)	6(a)	22.5	(1.7)
Loss for the year wholly attributable to the equity holder		**(25.0)**	**(26.9)**
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net gains/(losses) on investments in debt securities measured at fair value through other comprehensive income ("FVOCI")		66.0	(140.8)
Net gains on investments in debt securities measured at FVOCI reclassified to profit or loss on disposal		0.8	4.8
Finance (expenses)/income from insurance contracts issued	5(a), 9(a)	(35.4)	92.8
Finance income/(expenses) from reinsurance contracts held	5(b), 9(c)	7.4	(41.4)
Income tax (expense)/credit relating to these items	6(b)	(9.7)	21.1
Other comprehensive income/(expense) for the year		**29.1**	**(63.5)**
Total comprehensive income/(expense) attributable to the equity holder		**4.1**	**(90.4)**

The accounting policies and notes on pages 36 to 101 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2023

	Note	Share capital	Fair value reserve	Insurance finance reserve	Retained earnings	Total equity
		£ m	£ m	£ m	£ m	£ m
Balance as at 1 January 2022 as previously reported		384.9	(8.5)	-	190.8	567.2
Adjustment on initial application of IFRS 17	1.3.1	-	-	2.6	(11.5)	(8.9)
Adjustment on initial application of IFRS 9	1.3.1	-	(1.0)	-	1.0	-
Restated Balance as at 1 January 2022		384.9	(9.5)	2.6	180.3	558.3
Loss for the year		-	-	-	(26.9)	(26.9)
Other comprehensive (expense)/income for the year		-	(102.1)	38.6	-	(63.5)
Restated total comprehensive (expense)/income for the year		**-**	**(102.1)**	**38.6**	**(26.9)**	**(90.4)**
Dividends	18	-	-	-	(10.0)	(10.0)
Restated balance as at 31 December 2022		**384.9**	**(111.6)**	**41.2**	**143.4**	**457.9**
Loss for the year		-	-	-	(25.0)	(25.0)
Other comprehensive income/(expense) for the year		-	50.1	(21.0)	-	29.1
Total comprehensive income/(expense) for the year		**-**	**50.1**	**(21.0)**	**(25.0)**	**4.1**
Dividends	18	-	-	-	-	-
Capital injection	14	190.0	-	-	-	190.0
Balance as at 31 December 2023		**574.9**	**(61.5)**	**20.2**	**118.4**	**652.0**

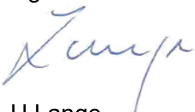
The accounting policies and notes on pages 36 to 101 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2023

		As at 31 December		As at 1 January
		2023	**2022 restated**	**2022 restated**
Assets	Note(s)	**£ m**	**£ m**	**£ m**
Intangible assets	7	16.7	17.0	17.3
Investment in group undertakings	8	198.6	184.6	194.6
Deferred tax assets	6(e)	20.8	37.6	6.8
Reinsurance contract assets	9	183.2	261.5	360.7
Insurance contract assets	9	0.5	5.1	3.9
Financial assets	12	1,755.3	1,319.2	1,397.1
Other receivables and prepayments	13	32.0	13.6	38.9
Current tax receivables	6(d)	15.5	14.1	-
Cash and cash equivalents	11	38.1	47.4	13.9
Total assets		**2,260.7**	**1,900.1**	**2,033.2**
Equity and liabilities				
Equity attributable to equity holder of the parent				
Share capital	14	(574.9)	(384.9)	(384.9)
Fair value reserve		61.5	111.6	9.5
Insurance finance reserve		(20.2)	(41.2)	(2.6)
Retained earnings		(118.4)	(143.4)	(180.3)
Total equity		**(652.0)**	**(457.9)**	**(558.3)**
Liabilities				
Insurance contract liabilities	9	(1,590.7)	(1,391.9)	(1,427.1)
Deferred tax liabilities	6(e)	(9.3)	(24.5)	(3.4)
Accruals and other payables	15	(2.7)	(12.5)	(24.3)
Borrowings	17	(6.0)	(13.2)	(1.6)
Current tax liabilities	6(d)	-	-	(18.5)
Financial liabilities	16	-	(0.1)	-
Total liabilities		**(1,608.7)**	**(1,442.2)**	**(1,474.9)**
Total equity and liabilities		**(2,260.7)**	**(1,900.1)**	**(2,033.2)**

The accounting policies and notes on pages 36 to 101 are an integral part of these financial statements.

These financial statements on pages 32 to 35 were approved by the Board of Directors on 16 May 2024 and signed on its behalf by:



U Lange
Director

Liverpool Victoria Insurance Company Limited
Registered Number: 03232514

Statement of Cash Flows
For the Year Ended 31 December 2023

	Note(s)	2023 £ m	2022 restated £ m
Cash flows from operating activities			
Loss before tax		(47.5)	(25.2)
Adjusted for:			
Amortisation of intangible assets	7	0.3	0.3
Net foreign exchange losses on debt investments	4(b)	0.5	0.1
Net impairment losses on financial assets	4(c)	-	3.0
Net (gains)/losses on financial instruments mandatorily measured at FVTPL	4(b)	(0.4)	7.0
Net losses on other investments measured at FVOCI	4(b)	0.8	2.5
Investment management expenses	4(d)	2.0	1.6
Interest received		(42.8)	(34.8)
Interest revenue	4(a)	(48.6)	(24.2)
Dividend income	4(e)	(70.0)	-
Amortisation of financial assets		9.9	5.4
Impairment of investment in group undertakings	8	31.0	35.0
Finance costs		0.3	0.5
		(164.5)	**(28.8)**
Changes in working capital			
Increase in insurance contract assets/ liabilities	9	168.0	56.4
Decrease in reinsurance contract assets/ liabilities	9	85.7	57.8
(Increase)/decrease in other receivables and prepayments	13	(18.4)	25.3
Decrease in accruals and other payables	15	(9.8)	(11.8)
		61.0	**98.9**
Cash generated from operations			
Interest received		42.8	34.8
Income tax received/(paid)	6	12.9	(22.8)
Net cash flows generated from operating activities		**116.7**	**110.9**
Cash flows from investing activities			
Purchase of financial assets		(593.8)	(450.8)
Proceeds from sale of financial assets		235.1	363.8
Dividends received	4(e)	70.0	-
Net investment income		38.7	17.8
Capital injection	8, 22	(45.0)	(25.0)
Proceeds from loan from group undertakings		(13.5)	15.8
Net cash flows used in investing activities		**(308.5)**	**(78.4)**
Cash flows from financing activities			
Capital injection	14,22	190.0	-
Interest paid on loan guarantee		(0.3)	(0.5)
Dividend paid to Company's shareholders	18, 22	-	(10.0)
Net cash flows generated from/(used in) financing activities		**189.7**	**(10.5)**
Net (decrease)/increase in cash and cash equivalents		**(2.1)**	**22.0**
Cash and cash equivalents at the beginning of the year	11,17	**34.2**	**12.2**
Cash and cash equivalents at the end of the year	11,17	**32.1**	**34.2**

The accounting policies and notes on pages 36 to 101 are an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2023

1 ACCOUNTING POLICIES

1.1 Company and its operations

Liverpool Victoria Insurance Company Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom, whose shares are not publicly quoted. The Company transacts most classes of general insurance business. Products offered include motor, household and liability.

1.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

1.3 Basis of preparation

The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of the Companies Act 2006 (Section 401 1a) as it is a subsidiary undertaking of an EU parent Allianz Societas Europaea ("Allianz SE") (see note 20). The financial statements present information about the Company as an individual undertaking and not about its Group.

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on the following alternative basis on each reporting date:

Item	Measurement basis
Financial instruments at fair value through profit and loss ("FVTPL")	Fair value
Financial instruments at FVOCI	Fair value
Derivative financial instruments at FVTPL	Fair value
Insurance and reinsurance contracts	Fulfilment cash flows ("FCF") and, if any, the contractual service margin ("CSM")

The functional and presentational currency is British Pounds.

Going concern

These financial statements are prepared on a going concern basis. For more information on the going concern assessment please refer to the Directors' Report on page 12.

New standards and interpretations adopted by the Company

In these financial statements, the Company has applied IFRS 17 and IFRS 9, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

As a result of the above, the Company has restated certain comparative amounts and has presented a third Statement of Financial Position ("SOFP") as at 1 January 2022. The nature and effect of the key changes in the Company's accounting policies resulting from the adoption of IFRS 17 and IFRS 9 are outlined in note 1.3.1 below.

New standards and interpretations not yet adopted by the Company

New standards and interpretations which are not mandatorily effective have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early; instead it will apply the standards from the effective date as determined by the date of UK Endorsement Board ("UKEB").

New amendments to existing standards not yet adopted by the Company

Amendments to IAS 1 'Presentation of Financial Statements'

Amendments to the classification of liabilities as either current or non-current, and non-current liabilities with covenants, clarify that the classification of liabilities as either current or non-current is based solely on the Company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. The amendments also aim to improve the quality of information the Company provides related to liabilities subject to these conditions.

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

New amendments to existing standards not yet adopted by the Company (continued)

Amendments to IAS 1 'Presentation of Financial Statements' (continued)
These amendments are not expected to have any impact on the Company.

Amendment to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures'
The amendments require an entity to disclose qualitative and quantitative information about its supplier finance programs and their effects on the liabilities, cash flows and exposure to liquidity risk. These amendments are not expected to have any impact on the Company.

Amendments to IAS 21 'Foreign Exchange'
The amendments impact an entity when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. These amendments are not expected to have a material impact on the Company.

1.3.1 Basis of preparation - Overall impact of transition to IFRS 17 and IFRS 9
The overall impact of transition to IFRS 9 and IFRS 17 on reserves and retained earnings at 1 January 2022 is as follows:

	£ m
Fair Value reserve	
Opening balance under IFRS 4/IAS 39, as previously reported at 1 January 2022	8.5
Reclassification to Retained Earnings for items classified as FVTPL, previously classified as FVOCI under IAS 39	2.0
Implementation of expected credit loss ("ECL") provision in accordance with IFRS 9	(0.6)
Deferred tax in relation to IFRS 9 application	(0.4)
Opening balance under IFRS 9, as restated at 1 January 2022	**9.5**
Retained earnings	
Opening balance under IFRS 4/IAS 39, as previously reported at 1 January 2022	(190.8)
Impact of initial application of IFRS 17	15.1
Deferred tax in relation to IFRS 17 application	(3.6)
Impact of initial application of IFRS 9	(1.3)
Deferred tax in relation to IFRS 9 application	0.3
Opening balance under IFRS 9 and IFRS 17, as restated at 1 January 2022	**(180.3)**
Total change in equity (net of tax) due to the application of new standards	
Fair value reserve	(1.0)
Retained earnings	1.0
Total change in equity due to the application of IFRS 9	**-**
Insurance / reinsurance finance reserve	2.6
Retained earnings	(11.5)
Total change in equity due to the application of IFRS 17	**(8.9)**

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

1.3.2 Basis of preparation – Adoption of IFRS 17
IFRS 17 'Insurance Contracts' replaces IFRS 4 'Insurance Contracts' and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts.

The adoption of IFRS 17 has not changed the classification of any of the Company's insurance contracts, nor resulted in identification of any additional insurance contracts.

IFRS 17 introduces a general measurement model ("GMM") that measures groups of contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. A simplification exists to allow measurement of groups of contracts under the premium allocation approach ("PAA") where certain conditions are met.

Under IFRS 17, the Company's insurance contracts issued are all eligible to apply the PAA. Eligibility for the PAA is principally based on the Company's groups of contracts having a contract boundary of one year or less, although where groups of contracts contain contracts with a coverage period in excess of one year, the Company does not expect the PAA to produce a measurement of the liability for remaining coverage ("LRC") which would be materially different to that calculated under the GMM. The exception to this approach is the reinsurance loss portfolio transfer ("LPT") arrangements, which has been measured under the GMM approach.

The measurement of contracts under the PAA is similar to the Company's previous accounting although differs in the following areas (adapted as necessary for reinsurance contracts held):

- The LRC reflects premiums received, less deferred insurance acquisition cash flows, less the amount recognised in the Statement of Profit and Loss and Other Comprehensive Income as revenue.
- Previously all acquisition costs were recognised as a separate asset until those costs were recognised in the Statement of Profit and Loss. Under IFRS 17 only acquisition costs incurred before the recognition of the related insurance contract are recognised as a separate asset. This separate asset is presented within the insurance contract liability as part of the related portfolio of contracts and is derecognised and included in the LRC once the related insurance contracts have been recognised.
- Where a group of insurance contracts is onerous the LRC includes a loss component (previously would have been part of the unexpired risk reserve assessment at a higher level) which requires an explicit estimate of the risk adjustment for non-financial risk. Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery from onerous contract losses where such contracts reinsure onerous direct contracts.
- The liability for incurred claims ("LIC") (previously consisting of the outstanding claims and incurred but not reported claims) is determined on a probability weighted best estimate basis, discounted and including an explicit allowance for a risk adjustment for non-financial risk.
- The effect of discounting and changes in the discount rate on the Statement of Profit and Loss and Other Comprehensive Income are disaggregated between insurance finance income and expense in the income statement (on a locked in basis) and OCI (an allocation of the remaining amount).
- Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in profit and loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.
- Measurement of the asset for incurred claims includes an allowance for non-performance risk on a probability weighted best estimate basis (previously on an incurred basis).

For presentation in the SOFP, the Company aggregates portfolios of insurance and reinsurance contracts issued and reinsurance contracts held and presents separately:

- Portfolios of insurance and reinsurance contracts issued that are assets
- Portfolios of reinsurance contracts held that are assets
- Portfolios of insurance contracts and reinsurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are liabilities

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

1.3.2 Basis of preparation – Adoption of IFRS 17 (continued)

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements.

The line item descriptions in the Statement of Profit and Loss and Other Comprehensive Income have been changed significantly compared with last year. Previously the Company reported the following line items:

- Gross earned premiums
- Reinsurers' share of gross earned premiums
- Commission
- Gross insurance claims paid
- Reinsurers' share of gross insurance claims paid
- Gross change in insurance liabilities
- Reinsurers' share of gross change in insurance liabilities

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Income/(expenses) from reinsurance contracts held
- Finance income/(expense) from insurance contracts issued
- Finance expense/(income) from reinsurance contracts held

The Company provides disaggregated qualitative and quantitative information in the notes to the financial statements about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying IFRS 17.

Changes in accounting policies arising from the adoption of IFRS 17 have been applied, to the extent practicable, using a fully retrospective approach. Under the fully retrospective approach, at 1 January 2022 the Company:

- identified, recognised and measured each group of insurance contracts issued and reinsurance contracts held as if IFRS 17 had always been applied;
- identified, recognised and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, however no recoverability assessment was applied before the transition date;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied. These included some deferred acquisition costs for insurance contracts, insurance receivables and insurance payables. Under IFRS 17, they are included in the measurement of the insurance contracts; and
- recognised any resulting net difference in equity.

The Company has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item. The effects of adopting IFRS 17 on the financial statements at 1 January 2022 are presented in the Statement of Changes in Equity.

The Company applied the modified retrospective approach for certain groups of contracts at 1 January 2022 because it was impracticable to apply the fully retrospective approach. The modified retrospective approach has been applied specifically to determine the discount rate used as the locked in discount rate and the inflation assumptions for periodic payment orders ("PPOs") for the LIC, and thus affecting the allocation of insurance finance income and expense between the Statement of Profit and Loss and Other Comprehensive Income, where such claims were incurred before 2013. The Company considers the fully retrospective approach impractical for this assumption because information relating to the discount rate was not collected and is not available at sufficient granularity before this date.

The objective of the modified retrospective approach was to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Company applied the modification to the areas specified above only to the extent that it did not have reasonable and supportable information to apply IFRS 17 retrospectively.

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

1.3.3 Basis of preparation – Adoption of IFRS 9

IFRS 9 ‘Financial Instruments’ replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’ and changes the classification and measurement of financial assets, based on the business model under which they are held and recognising a forward-looking impairment model based on ECL. In addition, IFRS 9 changes hedge accounting requirements although the Company does not have any financial instruments which qualify for hedge accounting.

The Company elected, under the amendments to IFRS 4, to defer the initial application of IFRS 9 to align with the initial application of IFRS 17.

The changes to the classification and measurement can be summarised as follows:

- IFRS 9 requires financial assets to be classified and measured based upon an assessment of the Company’s business model for managing the assets and the instruments contractual cash flow characteristics;
- IAS 39 measurement categories for financial assets (FVTPL, available for sale (“AFS”), held to maturity (“HTM”)) and loans and receivables at amortised cost have been replaced by:
    - Financial assets at FVTPL, including equity instruments and derivatives;
    - Debt instruments at FVOCI, with gains and losses recycled to profit and loss on derecognition;
    - Equity instruments at FVOCI, with no recycling of gains or losses to profit and loss on derecognition (this category has not been used by the Company); and
    - Debt instruments at amortised cost (“AC”).

IFRS 9 has not had any significant impact on the Company’s accounting policies for financial liabilities.

The adoption of IFRS 9 has fundamentally changed the Company’s accounting for impairment losses for financial assets held at FVOCI or AC by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. The changes in the accounting policy for impairments can be summarised as follows:

- IFRS 9 requires an allowance for ECL for all debt instruments not held at FVTPL;
- The ECL is based on a portion of the lifetime ECLs that would result from default events that are possible within 12 months after the reporting date. Where there has been a significant increase in credit risk since purchase of the asset the allowance is based on the full lifetime ECL; and
- The adoption of IFRS 9 has led to an increase in the impairment allowance as credit losses are recognised earlier under IFRS 9 than IAS 39.

The Company has applied IFRS 9 retrospectively and restated comparative information for 2022 for financial assets in the scope of IFRS 9. Differences arising from the adoption of IFRS 9 were recognised in retained earnings at 1 January 2022 as outlined in note 1.3.1.

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

1.3.3 Basis of preparation – Adoption of IFRS 9 (continued)

The following table shows the original measurement category and carrying amount under IAS 39 and the new measurement category and carrying amount under IFRS 9 for each class of the Company's financial assets as of the initial application date of 1 January 2022 and subsequent restatement at 31 December 2022:

31 December 2022

	Measurement category		Carrying amount	
Financial assets	**Original (IAS 39)**	**Restated (IFRS 9)**	**Original £m**	**Restated £m**
Managed funds	Available for sale	FVTPL	20.8	20.8
Debt securities	Available for sale	FVOCI	1,248.2	1,263.0
Debt securities	Available for sale	FVTPL	3.9	3.9
Loans to related parties	Amortised cost	Amortised cost	31.5	31.5

1 January 2022

	Measurement category		Carrying amount	
Financial assets	**Original (IAS 39)**	**Restated (IFRS 9)**	**Original £m**	**Restated £m**
Managed funds	Available for sale	FVTPL	113.1	113.1
Debt securities	Available for sale	FVOCI	1,223.5	1,234.6
Debt securities	Available for sale	FVTPL	2.1	2.2
Loans to related parties	Amortised cost	Amortised cost	47.3	47.3

The differences noted in carrying amount under IAS 39 and under IFRS 9 are the result of the reclassification of accrued interest. The reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements.

The Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 1.4(f). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. As of 1 January 2022 the Company reclassified a portion of its previously classified AFS assets as debt instruments at FVOCI under IFRS 9. These debt securities are held to meet everyday liquidity needs and support the insurance liabilities. The Company actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Company considers that under IFRS 9 these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets. The contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").
b. As of 1 January 2022 the Company reclassified a portion of its previously classified AFS assets as FVTPL instruments under IFRS 9. These assets were investments that were classified as AFS financial assets under IAS 39. Under IFRS 9, these assets are mandatorily measured at FVTPL because they do not give rise to cash flows that are SPPI.

1 ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

1.3.3 Basis of preparation – Adoption of IFRS 9 (continued)

c. The derivative financial instruments were designated at FVTPL under IAS 39 and are mandatorily FVTPL under IFRS 9.
d. Cash and cash equivalents remain measured at AC under IFRS 9 and the Company has concluded that the ECL model has made no impact on the valuation of cash and cash equivalents reported in the Financial Statements.

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 to the ECL allowances under IFRS 9 at the initial application date of 1 January 2022 and subsequent restatement at 31 December 2022:

In £m	Loss provision under IAS 39 at 31 December 2022	Re-measurement	ECLs under IFRS 9 at 31 December 2022
Debt instruments at FVOCI under IFRS 9:			
From AFS under IAS 39	-	2.6	2.6
	-	**2.6**	**2.6**

In £m	Loss provision under IAS 39 at 1 January 2022	Re-measurement	ECLs under IFRS 9 at 1 January 2022
Debt instruments at FVOCI under IFRS 9:			
From AFS under IAS 39	-	0.6	0.6
	-	**0.6**	**0.6**

1.4 Summary of material accounting policy information

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance contract liabilities, the ascertainment of fair values of financial assets and liabilities and probability of deferred tax assets being realised. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in the future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce significantly different results. Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of significant adjustments in the next year are discussed in note 2.

The material accounting policy information adopted in the preparation of the financial statements is set out in the following paragraphs.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information

(a) Investments in group undertakings

Investments in group undertakings are shown in the SOFP at cost. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment assessment compares the carrying amount of the investment in the subsidiary with the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount is higher than the recoverable amount, an impairment is recognised in the Statement of Profit and Loss and Other Comprehensive Income in the period in which it occurred.

The Company is exempt from preparing group financial statements by virtue of the Companies Act 2006, as it is a subsidiary undertaking of an EU parent (see Note 20).

(b) Intangible assets

The Company applies the cost model to account for intangible assets. The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight-line basis over the expected life of the intangible asset. This useful life has been assessed within the range of 10 to 20 years.

If the intangible asset has an indefinite useful life, then it is not amortised but tested annually for impairment.

(c) Income taxes

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income. Current tax and deferred tax shall be recognised outside profit and loss if the tax relates to items that are recognised, in the same or a different period, outside profit and loss.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the SOFP date, together with adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the SOFP date. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the SOFP date.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets are reviewed at each SOFP date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Group tax losses are utilised when available. Consideration paid for group relief is accounted for in the Financial Statements as though the payment had been made to the relevant tax authorities.

(d) Insurance and reinsurance contracts

Definition and classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Company uses judgement to assess whether a contract transfers insurance risk (i.e. if there is a scenario with commercial substance in which the Company has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the reinsured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in these financial statements apply to insurance contracts issued and reinsurance contracts held, unless specifically stated otherwise.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Level of aggregation
Insurance contracts are aggregated into groups and portfolios for measurement purposes. Initially, the Company divides insurance contracts written into portfolios which are comprised of groups of contracts with similar risks, and which are managed together. Each portfolio is further disaggregated into groups of contracts that are recognised within a calendar year (annual cohorts) and are: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. The groups are not subsequently reconsidered.

For each portfolio of contracts, the Company determines the appropriate level at which reasonable and supportable information is available, to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous.

This level of granularity determines group of contracts. The Company uses significant judgement to determine at what level of granularity the Company has reasonable and supportable information that is sufficient to conclude that all contracts within groups are sufficiently homogeneous, and will be allocated to the same group without performing an individual contract assessment.

For contracts measured using the PAA, the Company assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous ones.

For non-onerous contracts, the Company assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous. To identify whether a group of contracts is onerous, the Company uses available data that reflects facts and circumstances such as pricing information, environmental factors and other factors that could affect the profitability of a group of contracts.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held recognised within a calendar year (annual cohorts) into groups of: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Company tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

Recognition and derecognition
Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the Company determines that a group of contracts becomes onerous.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Recognition and derecognition (continued)

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) is recognised at the later of:
  - i. the beginning of the coverage period of the group; and
  - ii. the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held; unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts restriction. Composition of the groups is not reassessed in subsequent periods.

Accounting for contract modification and derecognition

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified and additional criteria discussed below are met.

When an insurance contract is modified by the Company as a result of an agreement with the counterparties or due to a change in regulations, the Company treats changes in cash flows caused by the modification as changes in estimates of the fulfilment cash flows FCF, unless the conditions for the derecognition of the original contract are met. The Company derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

a. if the modified terms had been included at contract inception and the Company would have concluded that the modified contract:
   i. is not within the scope of IFRS 17;
   ii. results in different separable components;
   iii. results in a different contract boundary; or
   iv. belongs to a different group of contracts;
b. the original contract represents an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
c. the original contract was accounted for under the PAA, but the modification means that the contract no longer meets the eligibility criteria for that approach.

When a new contract is required to be recognised as a result of modification and it is within the scope of IFRS 17, the new contract is recognised from the date of modification and is assessed for, amongst other things, contract classification, including the component separation requirements and contract aggregation requirements.

When an insurance contract accounted for under the PAA is derecognised, adjustments to remove related rights and obligations to account for the effect of the derecognition result in the following amounts being charged immediately to profit and loss:

a. if the contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from extinguishment;
b. if the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party; or
c. if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium that the entity would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Fulfilment cash flows within contract boundary
The FCF are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:
a. are based on a probability-weighted mean of the full range of possible outcomes;
b. are determined from the perspective of the Company, provided that the estimates are consistent with observable market prices for market variables; and
c. reflect conditions existing at the measurement date.

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates. For contracts measured under the PAA, unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation. For further information refer to Note 2.2.

Risk of the Company's non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability-weighted estimates of the present value of future cash flows include the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer.

The Company estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts.

The Company uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and as such estimates for the groups of underlying insurance contracts.

Contract boundary
The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts.

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:
a. the Company has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
b. both of the following criteria are satisfied:
   i. the Company has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
   ii. the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Company, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included. Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Contract boundary (continued)
For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Company that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer.

The Company's whole account quota share reinsurance agreements held have a duration of 12 months based upon the accident year but are automatically renewed unless cancelled by either party for new underlying business with effective at the renewal date with a three month notice period by either party. Thus, the Company treats such reinsurance contracts as a series of annual contracts that cover underlying business issued within a year. Estimates of future cash flows arising from all underlying contracts issued and expected to be issued within the reinsurance contracts' one-year boundary are included in the measurement of the reinsurance contracts.

The excess of loss reinsurance contracts held provides coverage for claims incurred during an accident year. Thus, all cash flows arising from claims incurred and expected to be incurred in the accident year are included in the measurement of the reinsurance contracts held. Some of these contracts might include mandatory or voluntary reinstatement reinsurance premiums, which are guaranteed per the contractual arrangements and are thus within the respective reinsurance contracts' boundaries.

Cash flows that are not directly attributable to a portfolio of insurance contracts, such as some product development and training costs, are recognised in other operating expenses as incurred.

Insurance acquisition costs
The Company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis.

Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

a. to that group; and
b. to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Before a group of insurance contracts is recognised, the Company could pay (or recognise a liability, applying a standard other than IFRS 17) for directly attributable acquisition costs to originate them. Such balances are recognised as insurance acquisition cash flow assets within the carrying amount of insurance contracts issued and are subsequently derecognised (in full or to the extent that insurance contracts expected to be in the group have been recognised at that date) when respective groups of insurance contracts are recognised and the insurance acquisition cash flows are included in the group's measurement. The amounts allocated to groups of insurance contracts yet to be recognised are revised at each reporting date, to reflect any changes in assumptions that determine the inputs to the method of allocation used.

Insurance acquisition cash flows assets not yet allocated to a group are assessed for recoverability if facts and circumstances indicate that the assets might be impaired. Impairment losses reduce the carrying amount of these assets and are recognised in insurance service expenses. Previously recognised impairment losses are reversed to the extent that the impairment conditions no longer exist or have improved.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Insurance acquisition costs (continued)
The recoverability assessment is performed in two steps, as follows:

1. an impairment loss is recognised to the extent that the carrying amount of each asset for insurance acquisition cash flows exceeds the expected net cash inflow as determined by the FCF as at initial recognition for the related group of insurance contracts;
2. in addition, when insurance acquisition cash flows directly attributable to a group of contracts are allocated to groups that include expected contract renewals, such insurance acquisition cash flows should not exceed the expected net cash inflow from the expected renewals as determined by the FCF as at initial recognition for the expected renewals; an impairment loss is recognised for the excess to the extent not recognised in step (1) above.

Other pre-recognition cash flows within the contract boundary
Before a group of insurance contracts is recognised, the Company recognises assets or liabilities for cash flows related to a group of insurance contracts other than insurance acquisition cash flows, either because of the occurrence of the cash flows or because of the requirements of another IFRS standard. Cash flows are related to the group of insurance contracts if they would have been included in the FCF at initial recognition of the group if they had been paid or received after that date. Such assets or liabilities (referred to as ‘other pre-recognition cash flows’) are included in the carrying amount of the related portfolios of insurance contracts issued or in the carrying amount of the portfolios of reinsurance contracts held.

Risk adjustment for non-financial risk
The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and it reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in Note 2 and Note 10.

Initial and subsequent measurement – Groups of contracts measured under the PAA
Except the reinsurance loss portfolio transfer arrangements, the Company applies the PAA to all the insurance contracts that it issues and all the other reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary.

For insurance contracts issued, insurance acquisition cash flows allocated to a group are deferred and recognised over the coverage period or estimated lifetime of the customer in a group. For reinsurance contracts held, broker fees are recognised over the coverage period of contracts in a group.

For insurance contracts issued, on initial recognition, the Company measures the LRC as the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows.

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Initial and subsequent measurement – Groups of contracts measured under the PAA (continued)
The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:
a. the LRC; and
b. the LIC, comprising the FCF related to past service allocated to the group at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:
a. the remaining coverage; and
b. the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:
a. increased for premiums received in the period, excluding amounts that relate to premium receivables included in the LIC;
b. decreased for insurance acquisition cash flows paid in the period;
c. decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period; and
d. increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:
a. increased for ceding premiums paid in the period;
b. increased for broker fees paid in the period; and
c. decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period.

The Company does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less.

The Company adjusts the remaining coverage for reinsurance contracts held for the effect of the risk of reinsurer's non-performance.

There are non-distinct investment components within some reinsurance contracts held that are measured under the PAA.

For contracts measured under the PAA, the future cash flows measured under LIC are adjusted for the time value of money, since insurance contracts issued by the Company and measured under the PAA typically have a settlement period of over one year.

Onerous contracts – Loss component for Groups of contracts measured under the PAA
If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Company increases the carrying amount of the LRC to the amounts of the FCF determined under the GMM with the amount of such an increase recognised in insurance service expenses, and a loss component is established for the amount of the loss recognised. Subsequently, the loss component is remeasured at each reporting date as the difference between the amounts of the FCF determined under the GMM relating to the future service and the carrying amount of the LRC without the loss component.

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the amount of income recognised in profit and loss and a loss-recovery component is established or adjusted for the amount of income recognised. The deferred income is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contract held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Onerous contracts – Loss component for Groups of contracts measured under the PAA (continued)
When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

Initial and subsequent measurement – Groups of contracts not measured under the PAA
The Company applies the GMM to groups of retroactive reinsurance contracts that it holds. This model measures a group of insurance contracts as the sum of FCF and a CSM representing the unearned profit the Company will recognise as it provides service under the insurance contracts in the group.

Initial and subsequent measurement – CSM of reinsurance contracts held
For groups of reinsurance contracts held, any net gain or loss at initial recognition is recognised as the CSM unless the net cost of purchasing reinsurance relates to past events, in which case the Company recognises the net cost immediately in profit or loss. For reinsurance contracts held, the CSM represents a deferred gain or loss that the Company will recognise as a reinsurance expense as it receives insurance contract services from the reinsurer in the future and is calculated as the sum of:
a. the initial recognition of the FCF; and
b. cash flows arising from the contracts in the group at that date;
c. the amount derecognised at the date of initial recognition of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held (other pre-recognition cash flows); and
d. any income recognised in profit or loss when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

A loss-recovery component is established or adjusted within the remaining coverage for reinsurance contracts held for the amount of income recognised in (d) above. This amount is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts. When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of:
a. the remaining coverage, comprising:
   i. the FCF related to future service allocated to the group at that date; and
   ii. the CSM of the group at that date; the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For reinsurance contracts held, at the end of each reporting period, the carrying amount of the CSM is adjusted by the Company to reflect the effect of the following changes:
a. The effect of any new contracts added to the group.
b. Interest accreted on the carrying amount of the CSM.
c. Income recognised in profit and loss when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group. A loss recovery component is established or adjusted within the remaining coverage for reinsurance contracts held for the amount of income recognised.
d. Reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held.
e. Changes in the FCF, to the extent that the change relates to future service, unless the change results from the remeasurement of the loss component established for a group of underlying insurance contracts.
f. The effect of any currency exchange differences.
g. The amount recognised in profit and loss for insurance contract services received during the period, determined after all other adjustments above.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Initial and subsequent measurement – CSM of reinsurance contracts held (continued)
Income referred to in (c) above is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contract held that is entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

For the purpose of (c) to (e) above, when underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

Reinsurance contracts held – Loss-recovery component
A loss-recovery component is established or adjusted within the asset for remaining coverage for reinsurance contracts held for the amount of income recognised in profit and loss when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

Subsequently, the loss-recovery component is adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts discussed in the Onerous contracts – Loss component section above. The loss recovery component is further adjusted, if required, to ensure that it does not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held.

The loss-recovery component determines the amounts that are presented as a reduction of incurred claims recovery from reinsurance contracts held and are consequently excluded from the reinsurance expenses determination.

Insurance revenue
As the Company provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Company expects to be entitled to in exchange for those services.

For groups of insurance contracts measured under the PAA, the insurance revenue for each year is the amount of expected premium for providing services in the year. The Company allocates the expected premium to each year on the following basis:

- the passage of time; or
- the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

For loss portfolio transfer arrangements, insurance revenue is recognised based on the expected timing of incurred insurance service expenses. For other groups of insurance contracts measured under PAA, the Company recognises insurance revenue based on the passage of time over the coverage period of a group of contracts.

Insurance service expenses
Insurance service expenses include the following:

a. incurred claims and benefits, excluding investment components reduced by loss component allocations;
b. other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
c. insurance acquisition cash flows amortisation;
d. changes relating to past service – changes in the FCF relating to the LIC; and
e. changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses; and
f. insurance acquisition cash flows assets impairment, net of reversals

For contracts measured under the PAA, amortisation of insurance acquisition cash flows is based on the passage of time.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Insurance service expenses (continued)
Other expenses not meeting the above categories are included in other operating expenses in the Statement of Profit and Loss and Other Comprehensive Income.

Net income/(expenses) from reinsurance contracts held
The Company presents financial performance of groups of reinsurance contracts held on a net basis in net income/(expenses) from reinsurance contracts held, comprising the following amounts:

a. reinsurance expenses;
b. incurred claims recoveries
c. for groups of reinsurance contracts measured under the PAA, broker fees are included within reinsurance expenses;
d. other incurred directly attributable expenses;
e. changes that relate to past service – changes in the FCF relating to incurred claims recovery;
f. effect of changes in the risk of reinsurers' non-performance; and
g. amounts relating to accounting for onerous groups of underlying insurance contracts issued:

    i. income on initial recognition of onerous underlying contracts; reinsurance contracts held under the GMM: reversals of a loss-recovery component other than changes in the
    ii. FCF of reinsurance contracts held; and reinsurance contracts held under the GMM: changes in the FCF of reinsurance contracts held from onerous underlying contracts.

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services.

For contracts measured under the GMM, reinsurance expenses comprise the following amounts relating to the changes in the remaining coverage:

a. claims and other directly attributable expenses recovery in the period, measured at the amounts expected to be incurred at the beginning of the period, excluding:
    - amounts allocated to the loss-recovery component;
    - repayments of investment components; and
    - amounts related to the risk adjustment for non-financial risk (see (b));
b. changes in the risk adjustment for non-financial risk, excluding:
    - changes included in finance income/(expenses) from reinsurance contracts held;
    - changes that relate to future coverage (which adjust the CSM); and
    - amounts allocated to the loss-recovery component;
c. amounts of the CSM recognised for the services received in the period; and
d. experience adjustments – arising from premiums paid in the period other than those that relate to future service.

For contracts measured under the PAA, the main amounts within insurance finance income or expenses are interest accreted on the LIC.

For groups of reinsurance contracts held measured under the PAA, the Company recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

Insurance finance income/(expenses)
Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:
a. the effect of the time value of money and changes in the time value of money; and
b. the effect of financial risk and changes in financial risk.

The Company disaggregates insurance finance income or expenses on insurance contracts issued and reinsurance contracts held between profit and loss and OCI. The impact of changes in market interest rates on the value of the insurance assets and liabilities are reflected in OCI in order to minimise accounting mismatches between the accounting for financial assets and insurance assets and liabilities. The Company's financial assets backing the insurance portfolios are predominantly measured FVOCI. Amounts presented in OCI are accumulated in the insurance finance reserve.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Insurance and reinsurance contracts (continued)

Insurance finance income/(expenses) (continued)
The Company disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

The groups of insurance contracts, including the CSM, that generate cash flows in a foreign currency are treated as monetary items. Applying IAS 21 at the end of the reporting period, the carrying amount of the group of insurance contracts, including the CSM, is translated into the functional currency at the closing rate. The Company has chosen to present the resulting foreign exchange differences within the line item 'finance expenses from insurance contracts'.

***(e)* Derivative financial instruments**
Derivatives are initially recognised at FVTPL on the date on which a derivative contract is entered into and are subsequently valued at fair value at each year end date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models are used as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the Statement of Profit and Loss and Other Comprehensive Income.

(f) Financial assets and liabilities
(i) Classification
The company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit and loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit and loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement
Financial assets
At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in the Statement of Profit and Loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(f) Financial assets and liabilities (continued)

(iii) Measurement (continued)
Debt instruments
Substantial measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss on derecognition is recognised directly in profit and loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the Statement of Profit and Loss and Other Comprehensive Income. Such assets held by the Company include cash and cash equivalents and other receivables.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, and that are not designated as FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss on the instrument's AC previously recognised in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in interest income using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit and loss and presented net within other gains and losses in the period in which it arises. Assets can also be designated to FVTPL if in doing so it eliminates, or significantly reduces, an accounting mismatch. The gains and losses arising from fair value changes on assets measured at FVTPL are recognised in the Statement of Profit and Loss and Other Comprehensive Income and presented within investment result in the period in which it arises. The Company's investment assets in this category include government bonds, corporate bonds, other fixed income holdings, equities, investment funds and derivatives. All these assets are at FVTPL because of the business model test.

Equity instruments
The Company subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit and loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit and loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in net impairment losses on financial assets in the Statement of Profit and Loss and Other Comprehensive Income.

Financial liabilities
At initial recognition, the Company classifies a financial liability at fair value and subsequently at AC using the effective interest rate method. Financial liabilities mainly include payables to brokerage customers, short term borrowings, long term borrowings and bonds payable.

Derivative financial instruments are measured at FVTPL initially and subsequently. All the related realised and unrealised gains or losses and transaction costs are recognised in profit and loss.

(iv) Impairment
IFRS 9 outlines an ECL model for all assets measured at AC and FVOCI. The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs. Impairment charges are recognised in the Statement of Profit and Loss within operational expenses.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(f) Financial assets and liabilities (continued)

(iv) Impairment (continued)
Credit-impaired financial assets
Financial assets, other than those at FVTPL, are assessed for impairment regularly. This requires the exercise of management judgement. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is credit-impaired.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

The ECL is a three-stage model based on forward looking information regarding changes in credit quality since inception. Credit risk is measured using a probability of default ("PD"); exposure at default ("EAD"); and loss given default ("LGD") as follows:

- PD is an estimate of the likelihood of default of the asset.
- EAD is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date.
- LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the exposure at default.

The three stages of ECL are defined and assessed as follows:
Stage 1 – no significant increase in credit risk since inception, ECL is calculated using a 12-month PD.
Stage 2 – a significant increase in credit risk since inception, ECL is calculated using a lifetime PD.
Stage 3 – credit impaired, ECL is calculated using a lifetime PD.
A significant increase in credit risk is considered to have incurred when payments are 30 days past due, or earlier if other factors indicate the risk has increased significantly since inception. Financial assets are written off when there is no reasonable expectation of recovery on a case-by-case basis.

For other receivables and prepayments, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 1.4(h) for further details.

(v) Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired; or they have been transferred and the Company transfers substantially all the risks and rewards of ownership; or they have been transferred and the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. Any gain or loss arising from derecognition is recognised directly in profit and loss.

When all or part of the current obligations of a financial liability have been discharged, the Company derecognises the portion of the financial liability or obligation that has been discharged. The difference between the carrying amount of the derecognised liability and the consideration is recognised in the Statement of Profit and Loss and Other Comprehensive Income.

(vi) Investment income
The total gain/(loss) from financial assets carried at FVTPL is recognised in the Statement of Profit and Loss and Other Comprehensive Income and disclosed in the notes as investment income comprising interest and dividends received, realised gains/(losses) and unrealised gains/(losses).

Interest income is calculated by applying effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(g) Fair value reserve
The fair value reserve relates to the changes in the fair value gains or losses on investments classified as FVOCI.

(h) Other receivables and prepayments
Other receivables and prepayments are initially recognised and subsequently re-measured at AC after taking into account any impairment losses. Other receivables and prepayments shall be derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

An ECL provision is assessed as at the Statement of Financial Position date and the carrying amount of the receivables balance is reported after deduction of any ECL.

The Company has adopted the “simplified approach” in determining the ECL. Under this approach, the ECL is calculated as the book cost of the receivables multiplied by a 1 year PD, an appropriate LGD and the number of days to maturity as a fraction of a year (“tenor”).

(i) Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand with an original maturity of three months or less at the date of placement.

An ECL provision is assessed as at the Statement of Financial Position date and the carrying amount of the cash and cash equivalents balance is reported after deduction of any ECL.

The Company has adopted the “simplified approach” in determining the ECL. Under this approach, the ECL is calculated as the book cost of the cash and cash equivalents multiplied by a 1 year PD, an appropriate LGD and tenor.

(j) Levies
Levies payable are treated as costs of underwriting business. A liability to pay a levy is recognised at the date of the obligating event, which may be at a point in time or over a period of time.

(k) Accruals and other payables
Accruals and other payables are recognised as they fall due. They are initially recognised at fair value and subsequently held at AC.

(l) Revenue recognition

Insurance revenue
Refer to note 1.4(d).

Investment income
Refer to note 1.4(f).

(m) Interest payable
Interest payable is recorded in the Statement of Profit and Loss and Other Comprehensive Income in the period in which it is incurred.

(n) Dividends
Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by the Board.

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The Company makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical judgements, estimations and assumptions that the Directors have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements are discussed below.

2.1 Significant accounting judgements

(a) Measurement of insurance and reinsurance contracts

The Company applies the PAA to simplify the measurement of insurance contracts where possible. This is possible when the coverage period of each contract in the group of insurance contracts is one year or less or the PAA provides a measurement which is not materially different from that under GMM.

All insurance and reinsurance contracts will use the PAA with the exception of the two LPT reinsurance contracts, where the old LPT contract covers the 2015 and prior years and new LPT contract covers the 2020 and prior year. Both of these reinsurance contracts will use GMM approach.

When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Company applies discounting and includes an explicit risk adjustment for non-financial risk.

For groups of contracts measured under GMM, IFRS 17 introduces a model that measures groups of contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. For the 2015 and 2016 contract years of the whole account quota share arrangement, the reinsurance contract is in a net cost position therefore it does not require a CSM.

The accounting policy on measurement of groups of contracts measured under the PAA and those not measured under the PAA are described in Note 1.4(d). The methodology and process of determining the present value of future cash flows is included in Note 10.

The judgement exercised in the valuation of insurance contracts and reinsurance contracts held affect the amounts recognised in the Statement of Financial Position as assets or liabilities of insurance and reinsurance.

(b) Assessment of eligibility for PAA

The majority of the Company's insurance and reinsurance contracts have a duration of one year or less and are automatically eligible for the PAA measurement model, with the exception of the two LPT reinsurance contracts covering 2015 and prior years and 2020 and prior years separately.

(c) Modified retrospective approach

After making reasonable efforts to gather necessary historical information, the Company has determined that, for certain groups of contracts, such information was not available or was not available in a form that would enable it to be used without undue cost and effort. It was therefore impracticable to apply the full retrospective approach and the Company applied judgements in determining the transition amounts under these approaches.

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.1 Significant accounting judgements (continued)

(c) Modified retrospective approach (continued)

At the point of transition, the Company has applied the fully retrospective approach for the LRC, however a modified retrospective approach is applied to the calculation of the OCI for the LIC due to the following key assumptions not being readily available without undue cost and effort:

- The Company's reserving processes only maintains individual accident year data for the previous 21 years, prior to this reserves are grouped together. Therefore, at transition, claims reserves on an accident year basis will only be available back to 2000.
- Data to determine the "locked-in" discount rates by annual cohort is not readily available for 2014 and prior accident years, therefore the "locked-in" discount rate used for 2014 and prior years is the "locked-in" discount rate at 1 January 2022. As a result, no OCI for changes in discount rates is recognised at transition for 2014.
- Data to determine the "locked-in" PPO inflation assumptions is not readily available for PPOs settled on 2013 and prior years, therefore the "locked-in" PPO inflation assumption used for PPOs settled on 2013 and prior years is the "locked-in" PPO inflation assumption at 1 January 2022.

(d) Level of aggregation and recognition of group of insurance contracts

For insurance contracts measured under the PAA, judgement has been applied on initial recognition to distinguish between (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts.

The Company performs a quantitative assessment each quarter to determine whether the group of contracts has become onerous and whether a loss component is required. For details of accounting policy on measurement of loss component, please refer to Note 1.4(d).

(e) Classification of financial assets

Assessing the business model within which the assets are held and whether cash flows generated by an asset constitute solely payments of principal and interest is sometimes complex and may require significant judgement. For details of accounting policy on classification of financial assets, please refer to Note 1.4(f).

2.2 Assumptions and estimation uncertainties

(a) Insurance and reinsurance contracts

The present value of future cash flows is estimated using deterministic scenarios. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios. Information about methodology and assumptions made in measuring insurance and reinsurance contracts is included in Note 10. For the sensitivities with regard to the assumptions made that have the most significant impact on measurement, refer to Note 19 risk management policies.

The key assumptions and sources of uncertainty are:

Discount rates: Insurance contract liabilities are calculated by discounting expected future cash flows. The bottom-up approach has been adopted to derive the discount rate for all contracts within the scope of IFRS 17. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). Further details on the methodology and assumptions used to derive the discount rate is detailed in Note 10.

The Company adopts the OCI approach and the impact of changes in discount rates are recognised through the OCI rather than through profit and loss. This reduces the volatility in the Insurance Service Result ("ISR") that arises from changes in the interest rates. To enable the disaggregation of changes in liabilities between the profit and loss and OCI requires the use of "locked-in" interest rates assumptions for the valuation of the LIC. Further details on the methodology and assumptions used to derive the "locked-in" rates is detailed in Note 10.

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.2 Assumptions and estimation uncertainties (continued)

(a) Insurance and reinsurance contracts (continued)

Cash flow payment patterns: The claim payment pattern is a key assumption to calculate the present value of future cashflows. These are derived mainly from historical experience. Where limited historical experience is available, expert judgement is applied. See Note 10 for further details.

Risk adjustment: The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The cost of capital method was used to derive the overall risk adjustment for non-financial risk. To highlight the significance of the cost of capital input, a sensitivity has been run on the impact of changing this figure. This sensitivity further details on the methods and assumptions used to measure the risk adjustment for non-financial risk. The corresponding confidence level is provided in Note 10.

Inflation: A key area of uncertainty continues to be the high inflation environment in 2023, and allowance has been made in the provisions for the impact of inflation on the ultimate cost of claims.

PPO claims: PPO claims also continue to be a significant uncertainty owing to the annuity-type structure of claim payments i.e. they are typically paid annually over the claimant's life. PPOs have to be projected over a longer-term period, and are, therefore, sensitive to the assumed PPO inflation and discount rate. See Note 10 for further details on other assumptions made for PPO claims.

PPOs are court ordered regular payments linked to an index. This is usually the Annual Survey of Hours and Earnings ("ASHE"). The valuation of PPOs includes a long-term assumption of inflation linked to the ASHE index. As PPO inflation is linked to the ASHE index, it is considered a financial risk.

Similar to the discount rate, the impact of changes in PPO inflation are recognised through the OCI rather than through profit and loss. Similarly, "locked-in" PPO inflation assumptions are required to disaggregate the changes in liabilities between the profit and loss and OCI. Further details on PPO inflation are detailed in Note 10.

(b) Fair value of financial assets

Fair value is the amount for which an asset could be exchanged, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Company uses assumptions to determine the fair value of financial instruments where one or more of the significant inputs are not based on observable market data. This is the case with financial instruments (managed funds) classified as "level 3".

(c) 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 down to the assessed realisable value.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 EXPENSES

	Note(s)	2023 £ m	2022 restated £ m
Claims and benefits		1,365.1	1,010.0
Fee and commission expense		126.3	128.9
Losses on onerous contracts and reversal of losses during the year	9(a)	(0.4)	4.9
Administrative expenses		128.5	104.2
Amortisation	7	0.3	0.3
Amounts attributed to insurance acquisition cash flow during the year	9(a)	(112.6)	(103.6)
Amortisation of insurance acquisition cash flow during the year	9(a)	128.5	116.6
Restructuring charges		1.7	22.0
Non-attributable acquisition expenses		45.8	44.4
Net impairment loss on assets for insurance acquisition cash flow	9(b)	-	3.3
		1,683.2	1,331.0
Represented by:			
Insurance service expenses	9(a)	1,636.3	1,264.5
Other operating expenses		46.9	66.5
Total		**1,683.2**	**1,331.0**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

4 NET INVESTMENT INCOME

	2023	2022 restated
	£ m	£ m
(a) Interest revenue		
Interest income from Investments held at AC:		
Cash and cash equivalents	1.8	0.1
Other receivables	2.9	2.0
Interest income from investments at FVOCI:		
Government bonds	3.7	1.3
Other debt securities	39.7	19.7
Interest income from investments at FVTPL:		
Corporate bonds	0.3	-
Managed Funds	0.2	1.1
Total Interest revenue	**48.6**	**24.2**
(b) Other investment revenue/(expenses)		
Net losses on derecognition of debt investments FVOCI	(0.8)	(2.5)
Net foreign exchange (loss)/gain on debt investments measured at FVTPL	(0.5)	0.2
Net foreign exchange loss on debt investments not measured at FVTPL	-	(0.3)
Net gains/(losses) on financial instruments mandatorily measured at FVTPL	0.4	(7.0)
Other investment expenses	**(0.9)**	**(9.6)**
(c) Net impairment losses on financial assets		
Movements in expected credit loss	(0.8)	(2.0)
Impairment on debt investment FVOCI	-	(3.0)
Reversal of dividend receivable	(3.1)	-
Net impairment losses on financial assets	**(3.9)**	**(5.0)**
(d) Investment expenses		
Investment management expenses	(2.0)	(1.6)
Loan guarantee fee	(0.3)	(0.5)
Total investment expenses	**(2.3)**	**(2.1)**
(e) Dividends received		
Dividends received from Liverpool Victoria Repair Services Limited	70.0	-
Total dividends received	**70.0**	**-**
Net investment income	**111.5**	**7.5**

5 NET INSURANCE FINANCE EXPENSE

	2023		2022 restated	
	£m Recognised in profit or loss	£ m Recognised in OCI	£m Recognised in profit or loss	£ m Recognised in OCI
(a) Finance (expenses)/income from insurance contracts				
Interest accretion - insurance contracts	(27.8)	(35.4)	(15.7)	92.8
Net Finance (expenses)/income from insurance contracts	(27.8)	(35.4)	(15.7)	92.8
(b) Finance income/(expenses) from reinsurance contracts				
Interest accretion - reinsurance contracts	4.0	7.4	4.2	(41.4)
Net Finance income/(expenses) from reinsurance contracts	4.0	7.4	4.2	(41.4)
Total Net insurance finance (expenses)/income	**(23.8)**	**(28.0)**	**(11.5)**	**51.4**

6 INCOME TAX RECEIPT/(EXPENSE)

(a) Income tax recognised in profit and loss

Tax (credited)/charged in the Statement of Profit and Loss and Other Comprehensive Income

	2023 £ m	2022 restated £ m
Current taxation		
In respect of the current year	(14.3)	(9.8)
Total current tax	**(14.3)**	**(9.8)**
Deferred taxation		
In respect of the current year	(8.2)	9.2
Arising from changes in tax rates and laws	-	2.3
Total deferred tax	**(8.2)**	**11.5**
Total income tax (credit)/expense recognised in the current year	**(22.5)**	**1.7**

6 INCOME TAX RECEIPT/(EXPENSE) (continued)

(a) Income tax recognised in profit and loss (continued)

The income tax for the year can be reconciled to the accounting loss as follows:

	2023	2022 restated
	£ m	£ m
Loss before tax	**(47.5)**	**(25.2)**
Income tax credit calculated at 23.5% (2022: 19%)	**(11.2)**	**(4.8)**
Decrease in current tax from adjustment for prior periods	(15.7)	-
Increase from effect of revenues exempt from taxation	-	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	7.3	6.6
Decrease from transfer pricing adjustments	(2.9)	(2.4)
Deferred tax expense relating to changes in tax rates or laws	-	2.3
Income tax (credit)/expense recognised in profit and loss	**(22.5)**	**1.7**

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021.

The Organisation for Economic Co-operation and Development (OECD) Pillar Two model rules

The Allianz SE Group is within the scope of the OECD Pillar Two model rules. Pillar Two legislation was enacted in the UK, the jurisdiction in which the company is incorporated, and will come into effect from 1 January 2024. Since the Pillar Two legislation was not effective at the reporting date, the Allianz SE Group has no related current tax exposure. The Allianz SE Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Under the legislation, the Allianz SE Group is liable to pay a top-up tax for the difference between its Global Anti-Base Erosion Rules (GloBE) effective tax rate per jurisdiction and the 15% minimum rate. The Allianz SE Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect. Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the enacted or substantively enacted legislation cannot yet be reliably estimated. Therefore, even for those entities with an accounting effective tax rate above 15%, there might still be Pillar Two tax implications. The Allianz SE Group is currently engaged with tax specialists to assist it with applying the legislation.

(b) Income tax recognised in other comprehensive income

	2023	2022 restated
	£ m	£ m
Deferred tax	9.7	(21.1)
Total income tax recognised in other comprehensive income	**9.7**	**(21.1)**

6 INCOME TAX RECEIPT/(EXPENSE) (continued)

(c) Tax paid for cash flow purposes

	2023 £ m	2022 restated £ m
Current tax (receivables)/liability at 1 January	(14.1)	18.5
Amounts (credited)/charged to the Statement of Profit and Loss	(22.5)	1.7
Movements in deferred tax asset in the Statement of Other Comprehensive Income	8.2	(11.5)
Tax received/(paid) during the year	12.9	(22.8)
Current tax receivables at 31 December	**(15.5)**	**(14.1)**

(d) Current tax receivables

	2023 £ m	2022 restated £ m
Current tax receivables	**(15.5)**	**(14.1)**

(e) Deferred tax balances

Deferred tax assets	2023 £ m	2022 restated £ m
Unrealised losses on debt investments	20.5	37.2
Unrealised losses on (re)insurance assets/liabilities	8.1	13.6
IFRS 9 profit and loss transitional adjustment	0.3	0.4
IFRS 17 transitional adjustment	-	-
Capital allowances	-	-
Total deferred tax assets	**28.9**	**51.2**
Set-off of deferred tax liabilities pursuant to set-off provisions	(8.1)	(13.6)
Net deferred tax assets	**20.8**	**37.6**
Deferred tax liabilities		
Intangible assets	2.5	2.3
IFRS17 P&L transitional adjustment	-	8.4
Unrealised gains on (re)insurance assets/liabilities	14.9	27.4
Total deferred tax liabilities	**17.4**	**38.1**
Set-off of deferred tax liabilities pursuant to set-off provisions	(8.1)	(13.6)
Net deferred tax liabilities	**9.3**	**24.5**

6 INCOME TAX RECEIPT/(EXPENSE) (continued)

6 (e) Deferred tax balances (continued)

	Unrealised losses on debt investments	Unrealised losses on (re)insurance assets/liabilities	IFRS 9 profit and loss transitional adjustment	IFRS 17 profit and loss transitional adjustment	Total
	£ m	£ m	£ m	£ m	£ m
Deferred tax assets in relation to					
At 1 January 2022	**3.2**	**-**	**-**	**3.6**	**6.8**
(Charged)/credited					
- to profit and loss	-	-	0.4	(3.6)	(3.2)
- to other comprehensive income	34.0	13.6	-	-	47.6
At 31 December 2022	**37.2**	**13.6**	**0.4**	**-**	**51.2**
At 1 January 2023	**37.2**	**13.6**	**0.4**	**-**	**51.2**
Charged					
- to other comprehensive income	(16.7)	(5.5)	(0.1)	-	(22.3)
At 31 December 2023	**20.5**	**8.1**	**0.3**	**-**	**28.9**

	Intangible assets	Unrealised gains on (re)insurance assets/liabilities	IFRS 9 profit and loss transitional adjustment	IFRS 17 profit and loss transitional adjustment	Total
	£ m	£ m	£ m	£ m	£ m
Deferred tax liabilities in relation to					
At 1 January 2022	**2.2**	**0.9**	**0.3**	**-**	**3.4**
Charged/(credited)					
- to profit and loss	0.1	-	(0.3)	8.4	8.2
- to other comprehensive income	-	26.5	-	-	26.5
At 31 December 2022	**2.3**	**27.4**	**-**	**8.4**	**38.1**
At 1 January 2023	**2.3**	**27.4**	**-**	**8.4**	**38.1**
Charged/(credited)					
- to profit and loss	0.2	-	-	(8.4)	(8.2)
- to other comprehensive income	-	(12.5)	-	-	(12.5)
At 31 December 2023	**2.5**	**14.9**	**-**	**-**	**17.4**

6 INCOME TAX RECEIPT/(EXPENSE) (continued)

6 (e) Deferred tax balances (continued)

	2023 £ m	2022 restated £ m
Deferred tax asset	20.8	37.6
Deferred tax liability	(9.3)	(24.5)
Current deferred tax liability	-	(8.4)
Non-current deferred tax asset	20.8	37.6
Non-current deferred tax liability	(9.3)	(16.1)

7 INTANGIBLE ASSETS

	Renewal rights £ m	Other intangible assets £ m	Total £ m
Cost or valuation			
At 1 January 2022	**4.0**	**15.8**	**19.8**
At 31 December 2022	**4.0**	**15.8**	**19.8**
At 1 January 2023	**4.0**	**15.8**	**19.8**
At 31 December 2023	**4.0**	**15.8**	**19.8**
Accumulated Amortisation			
At 1 January 2022	**2.5**	**-**	**2.5**
Charge for year	0.3	-	0.3
At 31 December 2022	**2.8**	**-**	**2.8**
At 1 January 2023	**2.8**	**-**	**2.8**
Charge for year	0.3	-	0.3
At 31 December 2023	**3.1**	**-**	**3.1**
Carrying amount			
At 31 December 2023	**0.9**	**15.8**	**16.7**
At 31 December 2022	**1.2**	**15.8**	**17.0**

The Company has considered whether there are any indications of impairment of the intangible assets at the Statement of Financial Position date. No indications of impairment were identified.

Intangibles with an indefinite useful life are not amortised and are reviewed annually for impairment, by comparing the carrying value to its recoverable amount. The recoverable amount 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 assets, the determination of both 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.

The amortisation charge has been included within other operating and administrative expenses.

8 INVESTMENTS IN GROUP UNDERTAKINGS

	£ m
Subsidiaries	
Cost or valuation	
At 1 January 2022	**194.6**
Additions	25.0
Impairment	(35.0)
At 31 December 2022	**184.6**
At 1 January 2023	**184.6**
Additions	45.0
Impairment	(31.0)
At 31 December 2023	**198.6**
Carrying amount	
At 31 December 2023	**198.6**
At 31 December 2022	**184.6**

The Company reviewed the value of its investment in the subsidiary company, HIG. The carrying value of HIG was £229.6m after a capital injection of £45.0m during 2023. Having undertaken an impairment assessment, management have concluded that an impairment was necessary and taken an approach to valuation based on the Solvency II net asset value. A value in use calculation indicated a higher valuation but management have decided upon the more prudent approach and have impaired the carrying value of HIG by £31.0m.

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 are revisited in Q3 of each year, with reforecasts taking place at earlier intervals where these are felt necessary. All key functions in the business are involved in their development, before review and challenge by the Board. In undertaking the impairment assessment, management has taken account of the competitive market environment, and the fact the plan assumes the market is not disrupted by competitor behaviour. The plan is on a pre-quota share basis in line with Allianz practice.

Investment returns were determined in consultation with our inhouse Investment Management team. The forecast cash flows have been discounted at a pre-tax rate of 12.4% and terminal growth rate of 1.5% applied to cash flows from 2026 onwards. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place. However, after sensitivity analysis was performed it showed that the base case discounted cash flows are most sensitive to a change in loss ratios, given the current inflationary environment a prudent view was taken into consideration and the loss ratios were increased in the plan which indicated an impairment. Based on the above assumptions and prudent view considered with regard to the loss ratios, the value in use amount gave rise to a £31.0m deficit over the carrying amount and the value of Highway Insurance Group was impaired down to £198.6m. This has been recognised in “Impairment of investment in group undertakings” in the Statement of Profit and Loss and Other Comprehensive Income.

8 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

The subsidiary undertakings of the Company at 31 December 2023 are shown below. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2023	2022
Highway Insurance Group Limited	General insurance holding company	England and Wales	100%	100%
Highway Insurance Company Limited*	General insurance	England and Wales	100%	100%
LV Repair Services Limited	Repair engineering services	England and Wales	100%	100%

*Highway Insurance Company Limited is indirectly held.

9 INSURANCE AND REINSURANCE CONTRACTS

	2023	2022 restated
	£ m	£ m
Insurance contract		
Insurance contract liabilities		
- Insurance contract balances	(1,617.9)	(1,420.3)
- Assets for insurance acquisition cash flows	27.2	28.4
	(1,590.7)	**(1,391.9)**
Insurance contract assets		
- Insurance contract balances	0.5	5.1
	0.5	**5.1**
Reinsurance contract		
Reinsurance contract assets	183.2	261.5
	183.2	**261.5**

The following table sets out the presentation of the current and non-current portion of the balances.

	2023			2022 restated		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
	£ m	£ m	£ m	£ m	£ m	£ m
Insurance contract liabilities	(906.1)	(684.1)	(1,590.2)	(818.6)	(568.2)	(1,386.8)
Reinsurance contract (liabilities)/assets	(182.7)	365.9	183.2	(47.7)	309.2	261.5

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts in each segment changed during the year as a result of cash flows and amounts recognised in the Statement of Profit and Loss and Other Comprehensive Income.

(a) Reconciliation of the liability for remaining coverage and the liability for incurred claims

	2023				
	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	
	£ m	£ m	£ m	£ m	£ m
Opening assets	4.2	-	0.9	-	5.1
Opening liabilities	(419.8)	(6.4)	(967.4)	(26.7)	(1,420.3)
Net opening balance	**(415.6)**	**(6.4)**	**(966.5)**	**(26.7)**	**(1,415.2)**
Insurance service revenue	**1,593.8**	**-**	**-**	**-**	**1,593.8**
Insurance service expenses					
Incurred claims and other directly attributable income/(expenses)	-	5.9	(1,473.3)	(11.5)	(1,478.9)
Changes that relate to past service – changes in the FCF relating to the LIC	-	-	(40.5)	11.2	(29.3)
Losses on onerous contracts and reversals of those losses	-	0.4	-	-	0.4
Insurance acquisition cash flows amortisation	(128.5)	-	-	-	(128.5)
Insurance service (expenses)/income	**(128.5)**	**6.3**	**(1,513.8)**	**(0.3)**	**(1,636.3)**
Finance expenses from insurance contracts issued	-	-	(61.3)	(1.9)	(63.2)
Total amounts recognised in comprehensive income	**1,465.3**	**6.3**	**(1,575.1)**	**(2.2)**	**(105.7)**
Insurance acquisition cash flows asset allocated to groups of insurance contracts	19.9	-	-	-	19.9
Total other movements	**19.9**				**19.9**
Cash flows					
Premiums received	(1,675.9)	-	-	-	(1,675.9)
Claims and other directly attributable expenses paid	-	-	1,446.9	-	1,446.9
Insurance acquisition cash flows	112.6	-	-	-	112.6
Total cash flows	**(1,563.3)**	**-**	**1,446.9**	**-**	**(116.4)**
Net closing balance	**(493.7)**	**(0.1)**	**(1,094.7)**	**(28.9)**	**(1,617.4)**
Closing assets	0.5		-	-	0.5
Closing liabilities	(494.2)	(0.1)	(1,094.7)	(28.9)	(1,617.9)
Net closing balance	**(493.7)**	**(0.1)**	**(1,094.7)**	**(28.9)**	**(1,617.4)**

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Reconciliation of the liability for remaining coverage and the liability for incurred claims (continued)

	2022 restated				
	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	
	£ m	£ m	£ m	£ m	£ m
Opening assets	3.0	-	0.9	-	3.9
Opening liabilities	(385.3)	(50.7)	(990.4)	(34.0)	(1,460.4)
Net opening balance	**(382.3)**	**(50.7)**	**(989.5)**	**(34.0)**	**(1,456.5)**
Insurance revenue	**1,348.3**	**-**	**-**	**-**	**1,348.3**
Insurance service expenses					
Incurred claims and other directly attributable income/(expenses)	-	49.2	(1,299.9)	(12.5)	(1,263.2)
Changes that relate to past service – changes in the FCF relating to the LIC6`5t	-	-	106.0	17.5	123.5
Losses on onerous contracts and reversals of those losses	-	(4.9)	-	-	(4.9)
Insurance acquisition cash flows amortisation	(116.6)	-	-	-	(116.6)
Insurance service (expenses)/income	**(116.6)**	**44.3**	**(1,193.9)**	**5.0**	**(1,261.2)**
Finance expenses from insurance contracts issued	-	-	74.8	2.3	77.1
Total amounts recognised in comprehensive income	**1,231.7**	**44.3**	**(1,119.1)**	**7.3**	**164.2**
Insurance acquisition cash flows asset allocated to groups of insurance contracts	20.0	-	-	-	20.0
Total other movements	**20.0**	**-**	**-**	**-**	**20.0**
Cash flows					
Premiums received	(1,388.6)	-	-	-	(1,388.6)
Claims and other directly attributable expenses paid	-	-	1,142.1	-	1,142.1
Insurance acquisition cash flows	103.6	-	-	-	103.6
Total cash flows	**(1,285.0)**	**-**	**1,142.1**	**-**	**(142.9)**
Net closing balance	**(415.6)**	**(6.4)**	**(966.5)**	**(26.7)**	**(1,415.2)**
Closing assets	4.2	-	0.9	-	5.1
Closing liabilities	(419.8)	(6.4)	(967.4)	(26.7)	(1,420.3)
Net closing balance	**(415.6)**	**(6.4)**	**(966.5)**	**(26.7)**	**(1,415.2)**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Insurance acquisition cash flows asset

(i) Reconciliation of insurance acquisition cash flows assets

Assets for insurance acquisition cash flows are presented in the carrying amount of the related portfolio of insurance contracts.

	2023	2022 restated
	£ m	£ m
Opening asset	28.4	27.4
Cash flows recognised as an asset during the year	18.7	24.3
Amounts derecognised on initial recognition of groups of insurance contracts	(19.9)	(20.0)
Impairment losses recognised during the year	-	(3.3)
Reversal of impairment losses recognised in prior periods	-	-
Closing asset	**27.2**	**28.4**
Cumulative impairment, net of reversals, recognised at the end of the period	-	3.3

(ii) Expected timing of derecognition of insurance acquisition cash flows asset

The following table sets out when the Group expects to derecognise assets for insurance acquisition cash flows after the reporting date:

Number of years until expected derecognition	**1**	**2**	**Total**
	£ m	£ m	£ m
As at 31 December 2023	20.7	6.5	27.2
As at 31 December 2022	19.8	8.6	28.4

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(c) Reconciliation of the remaining coverage and incurred claims components – reinsurance contracts held

	2023					
	Remaining coverage		Incurred claims for contracts not measured under the PAA	Incurred claims for contracts under PAA		Total
	Excluding loss recovery component	Loss recovery component		Present value of future cash flows	Risk adjustment for non-financial risk	
	£ m	£ m	£ m	£ m	£ m	£ m
Opening assets	(102.6)	2.6	-	349.3	12.2	261.5
Net opening balance	**(102.6)**	**2.6**	**-**	**349.3**	**12.2**	**261.5**
Net (expenses)/income from reinsurance contracts held						
Reinsurance expenses	(633.9)	-	-	-	-	(633.9)
Incurred claims and other directly attributable expenses recovery	-	(2.4)	38.1	540.8	4.7	581.2
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	-	-	-	41.8	(3.7)	38.1
Income on initial recognition of onerous underlying contracts	-	(0.2)	-	-	-	(0.2)
Effect of changes in the risk of reinsurers' non-performance	-	-	-	0.1	-	0.1
Net (expenses)/income from reinsurance contracts held	**(633.9)**	**(2.6)**	**38.1**	**582.7**	**1.0**	**(14.7)**
Finance income from reinsurance contracts held	-	-	-	10.3	1.1	11.4
Total amounts recognised in comprehensive income	**(633.9)**	**(2.6)**	**38.1**	**593.0**	**2.1**	**(3.3)**
Cash flows						
Premiums paid net of ceding commissions and other directly attributable expenses paid	587.8	-	-	-	-	587.8
Recoveries from reinsurance	-	-	(38.1)	(624.7)	-	(662.8)
Total cash flows	**587.8**	**-**	**(38.1)**	**(624.7)**	**-**	**(75.0)**
Net closing balance	**(148.7)**	**-**	**-**	**317.6**	**14.3**	**183.2**
Closing (liabilities)/assets	(148.7)	-	-	317.6	14.3	183.2
Net closing balance	**(148.7)**	**-**	**-**	**317.6**	**14.3**	**183.2**

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(c) Reconciliation of the remaining coverage and incurred claims components – reinsurance contracts held (continued)

	2022 restated					
	Remaining coverage		Incurred claims for contracts not measured under the PAA	Incurred claims for contracts under PAA		Total
	Excluding loss recovery component	Loss recovery component		Present value of future cash flows	Risk adjustment for non-financial risk	
	£ m	£ m	£ m	£ m	£ m	£ m
Opening assets	(74.1)	21.4	-	398.0	15.4	360.7
Net opening balance	**(74.1)**	**21.4**	**-**	**398.0**	**15.4**	**360.7**
Net (expenses)/income from reinsurance contracts held						
Reinsurance expenses	(483.6)	-	-	-	-	(483.6)
Incurred claims and other directly attributable expenses recovery	-	(20.8)	25.9	506.6	6.4	518.1
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	-	-		(32.3)	(7.7)	(40.0)
Income on initial recognition of onerous underlying contracts	-	2.0	-	-	-	2.0
Net (expenses)/income from reinsurance contracts held	**(483.6)**	**(18.8)**	**25.9**	**474.3**	**(1.3)**	**(3.5)**
Finance income from reinsurance contracts held	4.5			(39.8)	(1.9)	(37.2)
Total amounts recognised in comprehensive income	**(479.1)**	**(18.8)**	**25.9**	**434.5**	**(3.2)**	**(40.7)**
Investment components	(20.6)	-	20.6	-	-	-
Total other movements	**(20.6)**	**-**	**20.6**	**-**	**-**	**-**
Cash flows						
Premiums paid net of ceding commissions and other directly attributable expenses paid	471.2	-	-	-	-	471.2
Recoveries from reinsurance	-	-	(46.5)	(483.2)	-	(529.7)
Total cash flows	**471.2**	**-**	**(46.5)**	**(483.2)**	**-**	**(58.5)**
Net closing balance	**(102.6)**	**2.6**	**-**	**349.3**	**12.2**	**261.5**
Closing assets	(102.6)	2.6	-	349.3	12.2	261.5
Net closing balance	**(102.6)**	**2.6**	**-**	**349.3**	**12.2**	**261.5**

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(d) Reconciliation of the measurement components of reinsurance contract balances

	2023		
	Present value of future cash flows	**Risk adjustment for non-financial risk**	**Total**
	£ m	***£ m***	***£ m***
Opening assets	14.0	2.7	16.7
Net opening balance	**14.0**	**2.7**	**16.7**
Changes that relate to current service			
Change in the risk adjustment for non-financial risk for the risk expired	-	(1.3)	(1.3)
Experience adjustments – relating to incurred claims and other directly attributable expenses recovery	(11.1)	-	(11.1)
	(11.1)	(1.3)	(12.4)
Net expenses from reinsurance contracts held	**(11.1)**	**(1.3)**	**(12.4)**
Finance income from reinsurance contracts held	-	0.1	0.1
Total amounts recognised in comprehensive income	**(11.1)**	**(1.2)**	**(12.3)**
Cash flows			
Premiums paid net of ceding commissions and other directly attributable expenses paid	40.7	-	40.7
Recoveries from reinsurance	(38.1)	-	(38.1)
Total cash flows	**2.6**	**-**	**2.6**
Net closing balance	**5.5**	**1.5**	**7.0**
Closing assets	5.5	1.5	7.0
Net closing balance	**5.5**	**1.5**	**7.0**

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(d) Reconciliation of the measurement components of reinsurance contract balances (continued)

	2022		
	Present value of future cash flows	**Risk adjustment for non-financial risk**	**Total**
	£ m	**£ m**	**£ m**
Opening assets/(liabilities)	22.1	0.4	22.5
Net opening balance	**22.1**	**0.4**	**22.5**
Changes that relate to current service			
CSM recognised for the services received	-	-	-
Change in the risk adjustment for non-financial risk for the risk expired	-	(0.4)	(0.4)
Experience adjustments – relating to incurred claims and other directly attributable expenses recovery	16.5	-	16.5
	16.5	(0.4)	16.1
Changes that relate to future service			
Contracts initially recognised in the period	(3.7)	2.9	(0.8)
	(3.7)	2.9	(0.8)
Net income from reinsurance contracts held	**12.8**	**2.5**	**15.3**
Finance income from reinsurance contracts held	(0.5)	(0.2)	(0.7)
Total amounts recognised in comprehensive income	**12.3**	**2.3**	**14.6**
Cash flows			
Premiums paid net of ceding commissions and other directly attributable expenses paid	26.1	-	26.1
Recoveries from reinsurance	(46.5)	-	(46.5)
Total cash flows	**(20.4)**	**-**	**(20.4)**
Net closing balance	**14.0**	**2.7**	**16.7**
Closing assets	**14.0**	**2.7**	**16.7**
Net closing balance	**14.0**	**2.7**	**16.7**

9 INSURANCE AND REINSURANCE CONTRACTS (continued)

(e) Effect of contracts initially recognised in the year - Reinsurance contracts

There were no new contracts recognised in 2023.

	Contracts initiated without loss-recovery component	Contracts initiated with loss-recovery component	Total
	£ m	£ m	£ m
2022 (restated)			
Estimates of present value of cash inflows	125.0	-	125.0
Estimates of present value of cash outflows	(128.7)	-	(128.7)
Risk adjustment for non-financial risk	2.9	-	2.9
Net cost recognised on initial recognition	(0.8)	-	(0.8)

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES

The major classes of general insurance written by the Company include motor, property and liability. Risks under these policies usually cover a 12-month duration. For the groups of contracts which cover these types of risks, these contracts are automatically eligible to be measured under the PAA.

For all the ceded groups of contracts except on the LPT reinsurance contracts, the PAA measurement approach is automatically eligible. For the LPT reinsurance contract which is the old LPT contract which covers 2015 and prior years and new LPT contract which covers 2020 and prior years, the GGM measurement approach is adopted.

10.1 Methodology and assumptions

For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Statement of Financial Position date and the cost of claims incurred but not yet reported (“IBNR”) to the Company. In addition, assumptions of how these claims are expected to pay out over time are made. It can take a significant period of time before the ultimate cost of claims and payment cashflow can be established with certainty, and the final outcome may be better or worse than that estimated.

To the extent that the ultimate cost and payment cashflow 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 Statement of Profit and Loss and Other Comprehensive Income in future years.

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(a) Best estimate of future cash flows

The Company adopts a consistent process in the calculation of an adequate provision for all its general insurance contracts. The overriding aim is to establish reserves which are expected to be adequate and that there is consistency from year to year. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

Within the Liability for Incurred Claims, the best estimate of future cash flows comprises of the estimated present value of the ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the Statement of Financial Position date. Allowance for one-off occurrences or changes in policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims and the payment cashflow patterns, so that the estimate of outstanding claims represents the most likely outcome, taking account of all the uncertainties involved. There is also an allowance in the best estimate for Events Not In Data (“ENIDs”). This best estimate claims provision is revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported.

The calculation of the best estimate of future cash flows is reviewed via a formal governed process which includes close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions.

(i) Insurance contract liabilities

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. For large personal injury claims, the Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is set at -0.25% in England and Wales, and 0.75% in Scotland. The rates will be reviewed by the end of 2024. The Company has very limited exposure to Northern Ireland which is expected to move to a statutory process for setting the Ogden discount rate similar to England and Wales. In March 2022, the personal injury discount rate in Northern Ireland was set to -1.5%. This is subject to further review in July 2024. Ultimate claims costs for large personal injury claims continue to be estimated using the current Ogden discount rates. Past development is used to guide the ultimate cost.

The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available.

Standard actuarial claims projection techniques, such as the Chain Ladder method are used to estimate the majority of outstanding claims. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage 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 a Company’s past claims development experience can be used to project ultimate claims costs and the payment cashflow patterns. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in internal claim handling processes,
- changes in the mix of insurance contracts written,
- the impact of large losses and weather events.

Examples of where deviations from the standard actuarial claims projection techniques are applied include the following types of liabilities:

Recent weather events: In 2023, the most material weather event was Storm Babet in October. This mainly impacted the property classes. Development to the assumed ultimate costs of these claims has been allowed for in the provisions.

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(i) Insurance contract liabilities (continued)

Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each class of business. Estimation uncertainties differ by line of business for reasons such as the following:

- differences in the terms and conditions of insurance contracts,
- differences in the complexity of claims,
- the severity of individual claims,
- differences in the period between the occurrence and the reporting of claims.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or being based on the results of statistical modelling of the underlying accounts.

For the main classes of business, the Company purchases excess of loss reinsurance contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Incurred but not reported provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Impairment of the reinsurance asset is considered separately.

The assumptions that have the greatest effect on the movement of claims provisions are those that affect the expected level of claims. These can come from a number of sources, including, but not limited to:

- claim reporting and payment patterns being different from those expected;
- claims inflation being different from that expected;
- claim handling costs being different from those expected; and
- the emergence of currently unknown latent diseases.

Assumptions on claim reporting and payment patterns are derived in the main from those historically observed, as described above. External claim handling costs are included in the cost of claims, while an assumption on the cost of internal claims handling has been made for each line of business.

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, which are very sensitive to the assumptions made.

Inflation has started to reduce during the latter part of 2023, with the latest CPI announcement highlighting a material year-on-year drop in inflation to 4.0%. However there remain concerns that claims inflation will lag CPI and therefore that excess inflation will continue for longer than anticipated, or that the underlying levels of inflation are not fully captured implicitly within claims data.

Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims.

(ii) Annuity type liabilities

Within the Company's outstanding claims provisions include provisions associated with the settlement of high value personal injury claims by way of PPOs established under the Courts Act 2003. Under IFRS 17, future cashflows for PPOs are discounted using the IFRS 17 yield curves consistent with other insurance liabilities During 2023, one PPO liability expired, and one new settlement was agreed on this basis, making the total number of outstanding settled PPOs unchanged at 15. Total PPO claims reserves are £48.4m (2022: £48.4m) discounted gross and £15.8m (2022: £16.5m) discounted net of XoL ("excess of loss") and pre LPTQS ("loss portfolio transfer quota share"). The corresponding undiscounted amounts are £111.2m (2022: £113.4m) gross and £38.0m (2022: £39.1m) net of XoL and pre LPTQS.

For PPOs, the annuity type structure of the claim payments mean that these have to be projected over a longer-term period. The key assumptions affecting the undiscounted claims provisions held for PPOs are PPO inflation and the life expectancy of the claimant.

PPOs are court ordered regular payments linked to an index. This is usually the ASHE. The valuation of PPOs includes a long-term assumption of inflation linked to the ASHE index. As PPO inflation is linked to the ASHE index, it is considered a financial risk. The Company has adopted the OCI approach, therefore impact of changes relating to the PPO inflation assumption are recognised within the OCI rather than through Profit & Loss. This reduces the volatility in the Insurance Service Result that arises from changes in the PPO inflation assumption.

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(ii) Annuity type liabilities (continued)
To enable the disaggregation of changes in liabilities between the profit and loss and OCI requires the use of "locked-in" interest rates. Locked-in spot rate curves are derived for each annual cohort, the impact of the unwind of the discount derived from these locked-in rates is recognised within profit and loss. Where the data is not available, the modified retrospective approach is adopted, and the discount rate assumptions as at the transition date is assumed for these years. For further details, see Note 2.

(iii) Events Not In Data
An ENID reserve is included in the Company's best estimate outstanding claims provision. The ENID reserve considers events not included within the historical data and is derived using a scenario-based approach.

(iv) Impact of changes in assumptions to undiscounted best estimate of future cash flows
Overall, changes in assumptions and claims experience have caused a £55.4m gross of reinsurance increase in insurance provisions in respect of the prior period (net of XoL and pre LPTQS £22.7m), driven by strengthening on Household lines, following an increase in the expected cost of the December 2022 freeze event. Motor lines have seen strengthening of prior year attritional losses offset by releases in respect of large losses.

(b) Discounting
Insurance contract liabilities are discounted to reflect the time value of money. The key assumptions that affect the movement of discounted claims provision are the claims payment pattern and the discount rate.

Assumptions on claim payment patterns are derived in the main from those historically observed, similar to the claims reporting patterns. Where limited historical experience is available, expert judgement is applied. The claims payment patterns used to discount liabilities for attritional and large claims are updated quarterly and annually respectively.
The discount rate for all insurance contract liabilities is derived using the bottom-up approach. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity adjustment').

Risk free rates are determined by reference to the yields of overnight GBP swap rates (Sterling Overnight Index Average – "SONIA") which are highly liquid. For the illiquidity adjustment, there are no observable market rates for illiquidity of insurance liability cash flows. Therefore, the Company has determined the illiquidity adjustment using a top-down approach considering a reference portfolio of assets (mixture of fixed rate bonds) by term to determine the implied illiquidity premium. The implied illiquidity premium is the difference between the market spread over the risk-free rates of these assets and the risk premium for expected credit loss and volatility around the expected credit loss. It is assumed that the risk-free rate and illiquidity adjustment converges to the Ultimate Forward Rate ("UFR") assumption which represents the real average long-term risk-free rate including inflation.

The yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items in the Statement of Financial Position are as follows:

Discount rates applied for discounting of future cash flows	*1 year*		*3 years*		*5 years*		*10 years*		*20 years*		*30 years*	
	2023	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*
Insurance liabilities and assets	4.77%	4.48%	3.89%	4.58%	3.67%	4.45%	3.83%	4.36%	4.18%	4.41%	4.11%	4.24%

The Company has adopted the OCI approach, therefore impact of changes in discount rates are recognised within OCI rather than through Profit and Loss, similar to PPO inflation. This reduces the volatility in the Insurance Service Result "ISR" that arises from changes in the interest rates.

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Discounting (continued)

To enable the disaggregation of changes in liabilities between the profit and loss and OCI requires the use of "locked-in" interest rates. Locked-in spot rate curves are derived for each annual cohort, and the liabilities underlying the Statement of Profit and Loss and Other Comprehensive Income are discounted at locked-in rates. Where the data is not available, the modified retrospective approach is adopted, and the discount rate assumptions as at the transition date is assumed for these years. For further details, see Note 2.1(c).

Liabilities are discounted at current observable rates on the Statement of Financial Position and the impact of changes between the locked-in rates and current rates is recognised within OCI.

The disaggregation approach described above is applied to both the best estimate of future cash flows and the risk adjustment.

(c) Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled.

The cost of capital method was used to derive the overall risk adjustment for non-financial risk. The risk adjustment is calculated at the issuing entity level and then allocated down to each group of contracts in accordance with their risk profiles.

The key assumptions which affect the undiscounted risk adjustment are the Cost of Capital rate, risk capital charges to determine the projected capital relating to non-financial risk, diversification between risk types and classes of business, group diversification factor and lambda dampener assumptions.

The CoC rate is representative of the Company's view of the compensation that is required for the uncertainty arising from non-financial risk as the insurance contract is fulfilled. The CoC rate is set at 6.0% (2022: 6.0%) per annum, which is derived using Allianz SE Group's Capital Asset Pricing Model. It represents the return required by the Company to compensate for the exposure to non-financial risk and is used to steer the Company's business as part of the planning dialogue, management reporting and Key Performance Indicators used for monitoring.

To highlight the sensitivity of this assumption, a scenario with the rate at 4.0% has been modelled. The following table shows the impact on gross and net liabilities, profit before tax and equity for this change.

2023

Change in assumptions	**Impact on profit before tax gross of reinsurance**	**Impact on profit before tax net of reinsurance**	**Impact on equity gross of reinsurance**	**Impact on equity net of reinsurance**
	£ m	**£ m**	**£ m**	**£ m**
Risk adjustment CoC rate				
Reduce from 6.0% to 4.0%	10.2	4.4	9.6	4.4

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(c) Methods used to measure the risk adjustment for non-financial risk (continued)

2022

Change in assumptions	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£ m	£ m	£ m	£ m
Risk adjustment CoC rate				
Reduce from 6.0% to 4.0%	9.8	4.3	8.9	4.1

The capital is determined at a 99.5% confidence level over a one year horizon, and it is projected in line with the run-off of the business.

The risk capital charges are taken from the Company’s Standard Formula Model including premium risk, reserve risk, health risk, catastrophe risk, lapse risk and broker default risk. This covers the non-financial risk exposure for the Company from the fulfilment of its insurance contracts. An average of the past three years risk factors is used to reduce the volatility of the risk adjustment and represents the Company’s long-term view of the capital required to cover the non-financial risk arising from insurance contracts are fulfilled.

Diversification benefit between risk types and classes of business is assumed which is taken from the Company’s Standard Formula Model assumptions.

Group Diversification Factor (“GDF”) is assumed in the calculation of the risk adjustment which allows for the diversification between different entities within the Allianz SE Group. This assumption is included to reflect the Company’s position as part of wider Allianz SE Group where this assumption is included in the Company’s Return on Equity (“RoE”) ambition which is used in the Company’s pricing, planning dialogue, management reporting and Key Performance Indicators used for monitoring.

The resulting amount of the calculated net risk adjustment corresponds to the confidence level of the ultimate position, which is 67.8% (2022: 65.9%) against the Company's reserve risk distribution outputted from its internal Economic Model results.

Similar to the best estimate of fulfilment cash flows, the undiscounted risk adjustment is discounted where the payment pattern is aligned to the payment pattern for the best estimate of future cash flows by line of business and the same discount rate used. Similarly, the adoption of OCI and the disaggregation approach is also applied to the risk adjustment. For further details on these assumptions, see Section 10.1(a).

The methodology used to determine the risk adjustment for non-financial risk was not changed in 2023 and 2022.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

10.2 Loss development triangles

The following tables show the development of best estimate claims over a period of time on both a gross and net of reinsurance basis. The tables show the cumulative undiscounted incurred claims, including both notified and IBNR claims, for each successive accident year at each Statement of Financial Position date, together with cumulative undiscounted claims as at the current statement of financial position. In the loss development triangles, the cumulative undiscounted incurred claims estimates and payments for each accident year are translated into pounds sterling at the exchange rates that applied at the date of the statement of financial position.

In addition, the effect of discounting of the best estimate future cash flows and the discounted risk adjustment for non-financial risk is included which aggregates up to the liability for incurred claims.

Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the claims development disclosure below on a gross of reinsurance basis as at 31 December 2023.

Gross of reinsurance	*Pre-2014*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*Total*
	£m	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*
At end of accident year	-	827.9	799.1	879.7	847.2	920.0	865.8	710.7	804.5	1,124.0	1,300.0	9,078.9
One year later	-	793.2	845.9	834.4	829.5	870.1	845.7	645.6	771.5	1,213.4	-	7,649.3
Two years later	-	781.4	831.4	815.0	819.8	869.9	846.1	636.2	792.0	-	-	6,391.8
Three years later	-	770.1	794.8	801.0	821.8	877.5	837.9	641.4	-	-	-	5,544.5
Four years later	-	747.0	788.9	797.4	829.6	859.8	844.2	-	-	-	-	4,866.9
Five years later	-	742.7	778.7	806.0	800.0	852.5	-	-	-	-	-	3,979.9
Six years later	-	746.0	779.0	801.0	807.4	-	-	-	-	-	-	3,133.4
Seven years later	-	747.6	769.1	803.6	-	-	-	-	-	-	-	2,320.3
Eight years later	-	749.3	767.3	-	-	-	-	-	-	-	-	1,516.6
Nine years later	-	754.6	-	-	-	-	-	-	-	-	-	754.6
Current estimate of cumulative claims	-	754.6	767.3	803.6	807.4	852.5	844.2	641.4	792.0	1,213.4	1,300.0	8,776.4
Cumulative payments to date	-	(731.0)	(763.7)	(778.7)	(774.3)	(815.1)	(799.6)	(583.4)	(629.5)	(911.9)	(790.1)	(7,577.3)
Reserve in respect of prior years	93.9	-	-	-	-	-	-	-	-	-	-	93.9
Effect of discounting on the best estimate future cash flows	(53.7)	(5.7)	(0.1)	(6.5)	(9.9)	(3.6)	(7.4)	(6.4)	(35.3)	(40.4)	(44.0)	(213.0)
Effect of the risk adjustment for non-financial risk	1.1	0.5	0.1	0.5	0.7	0.7	1.1	1.4	3.7	7.1	12.0	28.9
Effect of receivables and payables	-	-	-	-	-	-	-	-	-	-	-	14.7
Gross LIC for contracts originated	41.3	18.4	3.6	18.9	23.9	34.5	38.3	53.0	130.9	268.2	477.9	1,123.6

10 INSURANCE AND REINSURANCE CONTRACT - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

10.2 Loss development triangles (continued)

Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the claims development disclosure below on a net of reinsurance basis as at 31 December 2023.

Net of reinsurance	*Pre-2014*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*Total*
	£m	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*
At end of accident year	-	817.5	786.1	702.4	608.3	686.9	674.1	554.4	455.5	635.2	754.1	6,674.5
One year later	-	785.0	866.2	566.4	610.6	657.9	661.9	515.2	439.5	673.2	-	5,775.9
Two years later	-	772.8	819.8	571.3	606.2	655.5	664.7	617.1	444.6	-	-	5,152.0
Three years later	-	770.6	785.9	561.3	606.0	662.2	661.3	614.7	-	-	-	4,662.0
Four years later	-	742.8	776.0	558.4	607.4	654.9	664.4	-	-	-	-	4,003.9
Five years later	-	735.3	770.8	564.4	589.5	648.4	-	-	-	-	-	3,308.4
Six years later	-	736.9	771.9	560.3	590.8	-	-	-	-	-	-	2,659.9
Seven years later	-	737.5	762.3	560.0	-	-	-	-	-	-	-	2,059.8
Eight years later	-	738.2	760.6	-	-	-	-	-	-	-	-	1,498.8
Nine years later	-	741.6	-	-	-	-	-	-	-	-	-	741.6
Current estimate of cumulative net claims	-	741.6	760.6	560.0	590.8	648.4	664.4	614.7	444.6	673.2	754.1	6,452.4
Net Cumulative payments to date		(723.8)	(757.0)	(546.4)	(571.9)	(617.3)	(626.5)	(574.6)	(377.4)	(535.7)	(464.0)	(5,794.6)
Net reserve in respect of prior years	41.9	-	-	-	-	-	-	-	-	-	-	41.9
Effect of discounting on the best estimate future cash flows	(21.6)	(3.7)	(0.1)	(2.2)	(2.8)	(1.7)	(5.7)	(2.8)	(9.7)	(14.9)	(22.4)	(87.6)
Effect of the risk adjustment for non-financial risk	0.2	0.4	0.1	0.2	0.4	0.6	0.8	0.8	1.3	2.9	6.9	14.6
Effect of reinsurance funds withheld deposits	-	-	-	-	-	-	-	-	-	-	-	291.8
Effect of receivables and payables	-	-	-	-	-	-	-	-	-	-	-	(126.8)
Net LIC for contracts originated	20.5	14.5	3.6	11.6	16.5	30.0	33.0	38.1	58.8	125.5	274.6	791.7

11 CASH AND CASH EQUIVALENTS

	Note	2023 £ m	2022 £ m
Cash and cash equivalents		32.6	17.4
Short-term deposits (including demand and time deposits)		5.5	30.0
		38.1	**47.4**
Bank overdrafts	17	(6.0)	(13.2)
Total		**32.1**	**34.2**

Short term deposits are benchmarked to Sterling Overnight Index Average "SONIA" and have a weighted average maturity of 33 days. Cash and cash equivalents are subject to an average interest rate of 2.0% (2022: 0.8%) and have an average maturity of 1 day.

The Company has concluded that the ECL model has made no impact on the valuation of cash and cash equivalents reported in the financial statements.

12 FINANCIAL ASSETS

The carrying amounts of the financial assets held by the Company are:

31 December 2023 (£ m)	AC	FVOCI	FVTPL Mandatory	TOTAL
Debt securities[1]	-	1,669.9	3.0	1,672.9
Managed funds	-	-	37.2	37.2
Derivative financial assets	-	-	0.2	0.2
Loans to related parties[2]	45.0	-	-	45.0
Total	**45.0**	**1,669.9**	**40.4**	**1,755.3**

31 December 2022 (£ m)	AC	FVOCI	FVTPL Mandatory	TOTAL
Debt securities[1]	-	1,263.0	3.9	1,266.9
Managed funds	-	-	20.8	20.8
Loans to related parties[2]	31.5	-	-	31.5
Total	**31.5**	**1,263.0**	**24.7**	**1,319.2**

[1] The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amount of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and calculated on a daily basis. The loaned securities are not removed from the Company's SOFP, they continue to be recognised within the appropriate investment classification. At 31 December 2023, the Company had lent £47.0m (2022: £Nil) and held collateral under such agreements of £47.3m (2022: £Nil). Due to the collateral held being higher than the value of securities lent the credit risk is deemed to be low.

12 FINANCIAL INVESTMENTS AND DERIVATIVES (continued)

(2) In December 2020 the Company provided a loan of £63m to Liverpool Victoria Insurance Management Limited ("LVIM"), another company within the LVGIG Group. This loan will be repaid over four years, in equal annual installments, up to and including 31 December 2024 and carry interest at the Bank of England base rate +3%. A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. The principle terms of the guarantee are as follows:

- Guarantee fee: The Company will pay Allianz SE an amount of 0.96% of the amount of the outstanding loan facility per annum and in return, Allianz SE will guarantee that it will pay the outstanding loan balance in the event that LVIM cannot meet obligations as they fall due.
- Automatic extension: The guarantee will extend automatically every year for another year (subject to payment of the guarantee fee by the Company) until 31 December 2024, unless it is cancelled by Allianz SE after giving 3 months prior notice.

In September 2020 the Company also entered into a loan facility agreement with Fairmead Insurance Limited. A drawdown was made in December 2023 of £29.2m, of which the final repayment is to be made by 30 June 2024. Interest is charged at 3% per annum and there is no loan guarantee in place.

All other financial assets and liabilities not stated in the above table are measured at amortised cost.

Refer to Note 19 for commentary on fair value levelling.

The following table sets out the carrying amounts of financial investments and derivatives expected to be recovered or settled more than 12 months after the reporting date:

	2023	2022 restated
	£ m	£ m
Measured at AC	-	15.8
Measured at FVOCI	1,492.0	1,174.6
Measured at FVTPL	1.8	3.1
Total	**1,493.8**	**1,193.5**

13 OTHER RECEIVABLES AND PREPAYMENTS

	2023	2022 restated
	£ m	£ m
Amounts due from related parties	2.3	5.8
Other receivables	28.0	4.6
Prepayments	1.7	3.2
Total other receivables and prepayments	**32.0**	**13.6**

Other receivables primarily comprises of a cashpool account operated by Allianz SE.

The carrying amounts disclosed above reasonably approximate fair values at year end. The other receivables are all current. The Company has concluded that the ECL model has made no significant impact on the valuation of receivables reported in the financial statements.

The Company's exposure to credit and market risks, including maturity analysis, relating to other receivables is disclosed in Note 19 risk management policies.

14 SHARE CAPITAL

Share capital - allotted, called up and fully paid

	2023		2022	
	No.	**£**	**No.**	**£**
Ordinary shares of £1 each	574,907,680	574,907,680	384,907,680	384,907,680

A capital injection of £60,000,000 in March 2023 and a subsequent capital injection of £130,000,000 in June 2023 were received from its immediate parent company LVGIG.

15 ACCRUALS AND OTHER PAYABLES

	2023	2022
	£ m	**£ m**
Amounts due to related parties	-	9.2
Accrued expenses	2.0	2.2
Other	0.7	1.1
Total accruals and other payables	**2.7**	**12.5**

The carrying amounts disclosed above reasonably approximate fair values at year end. All of the liabilities are payable within 12 months of the Statement of Financial Position date.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	2023	2022
	£ m	**£ m**
Foreign exchange forward contracts	-	0.1
Total other non-current financial liabilities	**-**	**0.1**

Financial liabilities will be settled within 12 months of the Statement of Financial Position date.

17 BORROWINGS

	2023	2022
	£ m	**£ m**
Current borrowings		
Bank overdraft	6.0	13.2

Borrowings will be settled within 12 months of the Statement of Financial Position date.

18 DIVIDENDS

	2023 £ m	2022 £ m
Interim dividends paid		
Interim dividend of nil (2022 - £0.03) per each ordinary share	-	10.0

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: £nil).

19 RISK MANAGEMENT POLICIES

Insurance and reinsurance contracts expose the Company to underwriting risk, which comprises insurance risk, policyholder behaviour risk and expense risk.

In addition, the Company is exposed to financial and operational risks from insurance and reinsurance contracts and financial instruments. Financial risks include credit risk, liquidity risk and market risk. Market risk comprises currency risk, interest rate risk and other price risk.

The Company only transacts general insurance business which is wholly written in the UK and the majority of risk exposure is confined within the UK.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur, including the adequacy of the price charged for the risk and uncertainty as to the amount and time of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims will exceed the carrying value of insurance contract liabilities. This is influenced by the frequency of claims, severity of claims, weather events and other factors dependent upon the type of the insurance contract. By the nature of an insurance contract, insurance risk is random and unpredictable. Therefore, the actual claims costs may exceed the estimated insurance contract liabilities.

Risk exposure is improved by diversification across a large portfolio of similar insurance contracts, as a more diversified portfolio is less likely to be affected by specific events. Exposure is also improved by careful selection and implementation of underwriting strategies, strict claim review policies to assess all new and ongoing claims, as well as the careful investigation of possible fraudulent claims.

The price charged by the Company for an insurance contract is generally determined using actuarial techniques which take into account past experience, anticipated loss ratios, claims frequency, expected claims inflation, reinsurance costs and other relevant influences such as the Company's required return on capital. For some products where the market is highly competitive and the rate determined by the application of actuarial techniques will not necessarily be obtainable. In these circumstances, the Company seeks to minimise the impact of uneconomic rates by strictly controlling the amount of business it writes in these segments and by seeking profitable niches within the segment. The Company has and will withdraw from segments of the market which do not offer the prospect of an acceptable return on capital over the medium term.

The Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition the Company uses both proportional and non-proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure for each line of business (motor, household and liability) is limited according to risk appetite, capital requirements and the return on capital.

The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses.

Based upon the modelling work undertaken, the Company buys reinsurance protection up to a 1-in-250-year single event. In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance up to a modelled 1-in-500-year loss event.

The Company places proportional reinsurance cover with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

19 RISK MANAGEMENT POLICIES (continued)

Insurance risk (continued)
The purpose of these underwriting and reinsurance strategies is to limit exposure to a series of unconnected events and catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by the board.

As detailed below under financial risk policies (b) Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full.

The Company has issued the following types of general insurance contract: motor, household and liability. The following table sets out the LIC by contract type:

	2023			2022		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£ m	£ m	£ m	£ m	£ m	£ m
Liability for incurred claims						
Motor	914.5	(401.4)	513.1	797.9	(306.0)	491.9
Household	179.1	(78.0)	101.1	147.5	(60.2)	87.3
Liability	12.9	(1.8)	11.1	18.0	(1.2)	16.8
Other	2.4	(1.0)	1.4	3.5	(1.4)	2.1
Effect of receivables and payables	14.7	(141.5)	(126.8)	26.3	(198.4)	(172.1)
Effect of deposits	-	291.8	291.8	-	205.7	205.7
Total LIC for contacts originated	**1,123.6**	**(331.9)**	**791.7**	**993.2**	**(361.5)**	**631.7**

Note 10 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments.

Inflation risk

Claims inflation risk is the risk that changes in claims inflation expectations will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in claims inflation which is considered as part of insurance risk. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities. PPO inflation is considered as a financial risk as it is linked to an index, see Section (b).

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, which are very sensitive to the assumptions made. Inflation has started to reduce during the latter part of 2023, with the latest CPI announcement highlighting a material year-on-year drop in inflation to 4.7%. However there remain concerns that claims inflation will lag CPI and therefore that excess inflation will continue for longer than anticipated, or that the underlying levels of inflation are not fully captured implicitly within claims data. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims.

19 RISK MANAGEMENT POLICIES (continued)

Inflation risk (continued)
The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The effect is shown before and after reinsurance:

- Timing of liabilities: best estimate of future cash flows have assumed to be one year earlier or one year later which also has a knock on impact on the risk adjustment. Similar stress is also applied to the best estimate of future cash flows on the unearned business to calculate whether there will be a loss component.

- Reserve over/underestimation, including impacts due to inflation (not including PPO inflation): +/-1% impact on the undiscounted best estimate of future cash flows which also has a knock on impact on the risk adjustment. Similar stress is also applied to the future cash flows on the unearned business to calculate whether there will be a loss component.

2023 Change in assumptions	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£ m	*£ m*	*£ m*	*£ m*
Timing of cashflows				
Increase by 1 year	35.0	17.3	39.6	19.9
Decrease by 1 year	(28.8)	(13.9)	(35.2)	(17.4)
Expected loss				
1% increase	(10.9)	(5.6)	(10.6)	(5.5)
1% decrease	10.9	5.6	10.6	5.5

2022 Change in assumptions	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£ m	*£ m*	*£ m*	*£ m*
Timing of cashflows				
Increase by 1 year	23.8	10.2	43.3	22.2
Decrease by 1 year	(29.3)	(13.8)	(46.4)	(24.0)
Expected loss				
1% increase	(13.9)	(7.5)	(13.3)	(7.2)
1% decrease	11.3	6.0	10.6	5.7

Note that these sensitivities demonstrate the effect of a change in key assumption while other assumptions remain unchanged. However, there are dependencies between these key assumptions and the occurrence of a change in one key assumption may lead to changes in other key assumptions as a result of correlations.

Financial risk
The Company is exposed to financial risk through its financial assets, including investments, reinsurance assets, premiums receivable and cash and cash equivalents held primarily to meet obligations under insurance contract liabilities. The key financial risk is that proceeds from the realisation of assets are insufficient to meet obligations under insurance contracts. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk.

(a) Market risk
Market risk is the risk that changes in market prices will affect the value of the Company's assets and income. The Company's liabilities have very limited exposure to these movements. The Company is exposed to market risk on all of its investment in group undertakings, FVOCI financial assets and receivables.

The Company manages market risk in a conservative manner. The carrying value of the investment in group undertakings is subject to an annual impairment review, where the subsidiaries are monitored individually. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in FVOCI fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable.

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(a) Market risk (continued)

i) Interest rate risk

A substantial part of the Company's assets are invested in fixed interest securities. Interest rate risk is the risk that interest rates will change, adversely affecting the market value of the fixed interest portfolio and consequently the value of the assets that the Company has available to meet insurance contract liabilities. None of the Company's general insurance contracts include benefits which involve contractual interest payments.

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At 31 December 2023 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.3 years (2022: 3.6 years) compared with the average duration of the estimate of undiscounted cash flows which is estimated to be 6.9 years (2022: 7.2 years). The difference is explained by the impact of PPOs, due to their very long-tailed nature, and the gap narrows significantly when discounting is applied.

ii) PPO Inflation risk

PPOs are court ordered regular payments linked to an index. This is usually the ASHE. The valuation of PPOs includes a long-term assumption of inflation linked to the ASHE index. Therefore, PPO inflation is considered a financial risk as it is linked to the ASHE index. The risk is that changes in the long-term expectation of PPO inflation affects the company's net asset value. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of PPO liabilities.

iii) Equity risk

Equity risk is the risk that the market price of managed funds will fall in value as a result of adverse stock market movements. The Company does not currently hold any traded equity holdings.

iv) Credit spread risk

Credit spread risk is the risk of changes in the Company's net asset value from movements in credit spreads, there is no offsetting between assets and liabilities as liabilities are not subject to credit spread risk. Hence this risk is managed in a similar way to credit risk, through applying a comprehensive series of limits determined after taking into account publicly available credit ratings.

v) Currency risk

The Company had minimal exposure to currency risk during 2023 and 2022.

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(a) Market risk (continued)

vi) Sensitivity to market risk

The table below shows the sensitivity of the Company's profit or loss before tax and equity to reasonably possible movements in key assumptions that affect financial risk with all other assumptions held constant. The effect is shown before and after reinsurance.

- Interest rate risk: shift in yield curve – +/-1% impact in yield curves to discount insurance contract liabilities including the risk adjustment and discounted cashflows used to calculate the loss component. This does not affect the P&L due to "locked-in" interest rates used.
- PPO inflation: +/-1% impact on PPO inflation on PPO liabilities and knock on impact on risk adjustment. It does not affect the loss component. This does not affect the P&L due to "locked-in" PPO assumptions used.

2023 Change in assumptions and impact on insurance liabilities and assets	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£ m	*£ m*	*£ m*	*£ m*
Interest rate				
+100 basis points shift in yield curves	-	-	33.5	12.6
-100 basis points shift in yield curves	-	-	(39.3)	(14.1)
PPO inflation				
1% increase	-	-	(0.5)	(0.1)
1% decrease	-	-	0.5	0.1

2022 Change in assumptions and impact on insurance liabilities and assets	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£ m	*£ m*	*£ m*	*£ m*
Interest rate				
+100 basis points shift in yield curves	-	-	31.0	11.8
-100 basis points shift in yield curves	-	-	(41.3)	(16.1)
PPO inflation				
1% increase	-	-	(0.5)	(0.1)
1% decrease	-	-	0.5	0.1

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(a) Market risk (continued)

vi) Sensitivity to market risk (continued)

The table below shows the sensitivity of the Company's profit or loss before tax and equity to changes in market risk factors.

	2023		2022 restated	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
	£ m	£ m	£ m	£ m
Interest rate risk				
+100 basis points shift on investment value	0.6	0.4	2.5	1.9
-100 basis points shift on investment value	(0.6)	(0.4)	(2.5)	(1.9)

The effects of the specified changes in factors are determined using statistical models, as relevant. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, sensitivity analysis is based on the Company's financial position at the reporting date and may vary at the time that any market movement occurs. As investment markets move past pre-determined trigger points, management action would be taken which would alter the Company's position.

Note that these sensitivities demonstrate the effect of a change in key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its financial assets, cash and cash equivalents, reinsurance contract assets, loans to related parties, premiums receivable and other receivables.

The Company manages credit risk for financial assets (other than the amounts invested in government securities) and cash and cash equivalents by limiting the amount of exposure to individual counterparties. This is achieved through applying a comprehensive series of limits determined after taking into account publicly available credit ratings and such other information considered relevant. These limits restrict, dependent upon credit rating, the amount of financial assets exposed to each counterparty or where the counterparty is a member of a group the exposure to the group. The broad strategy is to limit the credit risk to tolerable levels whilst at the same time taking limited and controlled advantage of the additional returns which are available for additional risk.

The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with financial institutions with A credit ratings and are immediately available. The Company deems the risk associated with its other receivables to be low. Despite the majority of the premiums receivable balance being unrated, the Company deems the associated risk to be low because these amounts are due from policyholders and are due within one year. The Company is also exposed to credit risk through its loan to related parties. Details relating to the repayment of this loan are contained in Note 12. The Company deems the credit risk associated with the loan to be low.

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(b) Credit risk (continued)

Reinsurance is used to manage insurance risk but does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest reinsurance counterparty risk at 31 December 2023 was £725.9m (2022: £697.4m).

Premiums receivable are closely monitored via the credit control process. For amounts due from brokers, credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the unexpired risk. The largest insurance counterparty risk at 31 December 2023 was £12.0m (2022: £6.6m).

Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

The following table provides information regarding the credit risk exposure of the Company at 31 December, by classifying assets according to the credit ratings of counterparties.

	AAA-A	BBB-B	CCC-C	Other not rated	Total
2023	£ m	£ m	£ m	£ m	£ m
Reinsurance assets	183.2	-	-	-	183.2
Assets measured at FVTPL	37.2	3.0	-	0.2	40.4
Assets measured at FVOCI	1,222.3	445.0	2.3	0.3	1,669.9
Assets measured at AC	-	-	-	45.0	45.0
Other receivables and prepayments	27.4	-	-	4.6	32.0
Cash and cash equivalents	38.1	-	-	-	38.1
Total £ m	1,508.2	448.0	2.3	50.1	2,008.6
Percent	75.1%	22.3%	0.1%	2.5%	100.0%

	AAA-A	BBB-B	CCC-C	Other not rated	Total
2022 restated	£ m	£ m	£ m	£ m	£ m
Reinsurance assets	261.5	-	-	-	261.5
Assets measured at FVTPL	20.8	3.9	-	-	24.7
Assets measured at FVOCI	868.5	392.8	1.4	0.3	1,263.0
Assets measured at AC	-	-	-	31.5	31.5
Other receivables and prepayments	0.1	-	-	13.5	13.6
Cash and cash equivalents	47.4	-	-	-	47.4
Total £ m	1,198.3	396.7	1.4	45.3	1,641.7
Percent	73.0%	24.2%	0.0%	2.8%	100.0%

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(b) Credit risk (continued)

The following table sets out the credit quality analysis for debt investments measured at FVOCI with loss allowance without taking into account collateral or other credit enhancements. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

Assets at FVOCI

£ m	2023				2022 restated			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AAA-A	1,197.8	24.5	-	1,222.3	862.0	6.5	-	868.5
BBB-B	441.9	3.1	-	445.0	364.1	28.7	-	392.8
CCC-C	-	1.0	1.3	2.3	-	0.3	1.1	1.4
Other not rated	-	-	0.3	0.3	-	-	0.3	0.3
Fair value	**1,639.7**	**28.6**	**1.6**	**1,669.9**	**1,226.1**	**35.5**	**1.4**	**1,263.0**

The Company's ECL assessment and measurement method is set out below.

Significant increases in credit risk, default and cure
When determining whether the credit risk (i.e. risk of default) on a financial assets has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Company's experience, credit assessment and forward-looking information.

The following exclude cash and cash equivalents as well as other receivables as these are disclosed separately within their respective notes.

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company uses hurdle ratings that indicate a significant increase in credit risk and consequently a transfer from Stage 1 to Stage 2 on a notch-by-notch basis. In addition, the rating hurdle is dependent on the expected maturity of the investment. A transfer to Stage 3 is triggered by a CCC rating or when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to mitigating actions. The criteria of "default" are consistent with those of "credit-impaired".

In cases when an instrument identified as defaulted, it is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of credit-impaired when none of the default criteria have been present for at least twelve consecutive months.

Modifications of financial assets
The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value plus eligible transaction costs in accordance with the accounting policies in note 1.4(f).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of significant increase in credit risk is assessed. The credit risk at the reporting date under the modified contractual terms of the asset shall be compared to the credit risk at initial recognition under the original unmodified contractual terms of the financial asset. If this comparison does not show a significant increase in credit risk, the loss allowance should be measured at 12-month ECL.

Incorporation of forward-looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL.

19 RISK MANAGEMENT POLICIES (continued)

Financial risk (continued)

(b) Credit risk (continued)

It formulates a “base case” view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on management knowledge and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities where the Company operates.

The forward-looking information is not considered as a significant accounting estimates input to the calculation of ECL. The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL (Stage 1) or lifetime ECL significant risk (Stage 2) or lifetime ECL credit-impaired (Stage 3), the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The following tables show reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instrument.

Assets at FVOCI		**2023**				**2022 restated**		
£ m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	0.8	0.1	1.7	2.6	0.6	-	-	0.6
Financial assets acquired	0.1	0.1	-	0.2	0.3	0.1	1.7	2.1
Net remeasurement of ECL	(0.1)	0.5	0.2	0.6	(0.1)	-	-	(0.1)
Balance at 31 December	**0.8**	**0.7**	**1.9**	**3.4**	**0.8**	**0.1**	**1.7**	**2.6**

The ECL for debt investments at FVOCI of £3.4m (2022: £2.6m) is recognised in OCI, instead of reducing the carrying amount of the asset. ECL for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, recognised in the Statement of Profit and Loss.

The following table provides a reconciliation between:
– amounts shown in the tables above reconciling opening and closing balances of the ECL by class of financial asset; and
– the ‘net impairment loss on financial assets’ line item in the statement of profit and loss.

		2023			**2022 restated**	
	Net remeasurement of loss allowance	Financial assets acquired	Total	Net remeasurement of loss allowance	New financial assets acquired	Total
	£ m	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Assets at AC	-	-	-	-	-	-
Assets at FVOCI	0.6	0.2	0.8	(0.1)	2.1	2.0
Total	**0.6**	**0.2**	**0.8**	**(0.1)**	**2.1**	**2.0**

(c) Liquidity risk

Liquidity risk is the risk that funds might not be available to settle obligations when they fall due. The Company is exposed to liquidity risk through its deferred tax liability, insurance contract liabilities, trade and other payables and accruals and other payables. The Company doesn’t consider there to be any material liquidity risk associated with the deferred tax liability as this is entirely offset by a deferred tax asset. In regard to liquidity risk associated with the accruals and other payables, the Company has sufficient liquid assets to settle these amounts as they fall due.

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's FVOCI financial assets at 31 December 2023 amounted to £1,669.9m (2022: £1,263.0m). In 2023, the cash pool of £27.4m (2022: £0.1m) plus cash and cash equivalents of £38.1m (2022: £47.4m) totalled £65.5m (2022: £47.5m). Nearly all financial assets are readily realisable. As a result, the Company's exposure to potential liquidity risk is extremely low and in the risk capital model used by the Company no capital is allocated to this risk.

19 RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

The following tables show information about the contractual maturities of the Company's financial assets. In addition, it shows the estimated timing of the cash flows from the Company's insurance assets and liabilities, which reflect the dates on which the cash flows are expected to occur. The cash flows are undiscounted and exclude the risk adjustment for non-financial risk. The analysis for insurance and reinsurance contract excludes the liabilities (and assets) for remaining coverage for contracts measured under the PAA.

2023

	Carrying amount	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*	*Total*
	£ m	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*
Financial assets							
- Measured at FVTPL	40.4	23.0	0.4	1.9	-	-	25.3
- Measured at FVOCI	1,669.9	180.8	264.8	732.5	442.3	133.9	1,754.3
- Measured at amortised cost	45.0	45.0	-	-	-	-	45.0
- Cash and cash equivalents	38.1	38.1	-	-	-	-	38.1
- Other receivables and prepayments	32.0	32.0	-	-	-	-	32.0
	1,825.4	318.9	265.2	734.4	442.3	133.9	1,894.7
Insurance contract liabilities	(1,123.6)	(417.9)	(201.0)	(351.0)	(149.1)	(173.9)	(1,292.9)
Reinsurance contract assets	338.9	182.8	84.0	176.3	98.6	132.4	674.1

2022 restated

	Carrying amount	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*	*Total*
	£ m	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*	*£ m*
Financial assets							
- Measured at FVTPL	24.7	21.7	1.5	2.3	-	-	25.5
- Measured at FVOCI	1,263.0	89.3	150.9	558.3	470.8	102.5	1,371.8
- Measured at amortised cost	31.5	15.8	15.7	-	-	-	31.5
- Cash and cash equivalents	47.4	47.4	-	-	-	-	47.4
- Other receivables and prepayments	13.6	13.6	-	-	-	-	13.6
	1,380.2	187.8	168.1	560.6	470.8	102.5	1,489.8
Insurance contract liabilities	(994.1)	(388.7)	(154.6)	(302.2)	(140.6)	(164.0)	(1,150.1)
Reinsurance contract assets	378.2	168.1	62.4	154.4	92.9	125.6	603.4

19 RISK MANAGEMENT POLICIES (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

Compliance with Company standards is supported by a programme of periodic reviews.

Capital management

The Company maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value.

The level of capital required by the Company is determined by its risk appetite, approved by the Board. Under the Solvency II regime adopted by the PRA, 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 Company's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2023. Capital held to back the SCR is of high quality and clearly meets the tests for the composition of capital laid down by the Solvency II Directive.

The Company is regulated in respect of prudential requirements (including capitalisation) by the PRA. The Company aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above the SCR to ensure that the company is adequately capitalised in most expected circumstances.

The Company's capital comprises total shareholders' equity and amounts to £652.0m (2022: £457.9m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2023 the own funds amount to £596.9m with a surplus of 137.3% on SCR (2022: own funds amount to £446.6m with a surplus of 123.2% on SCR).

Fair value hierarchy

The following table shows a three-level fair value hierarchy for financial assets depending on the inputs used to determine fair value. The fair value hierarchy has the following levels:

Level 1: quoted prices in active markets for identical assets.

Level 2: valuation technique which uses the current prices in an active market of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

Level 3: if one or more of the significant inputs is not based on observable market data.

19 RISK MANAGEMENT POLICIES (continued)

Fair value hierarchy (continued)

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Fair value as of 31 December 2023				
Government and government agency bonds	244.9	315.3	-	560.2
Corporate bonds	3.7	1,109.0	-	1,112.7
Forward exchange contracts	0.2	-	-	0.2
Managed funds	-	-	37.2	37.2
	248.8	1,424.3	37.2	1,710.3

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Fair value as of 31 December 2022 (restated)				
Government and government agency bonds	148.0	190.6	-	338.6
Corporate bonds	3.4	924.9	-	928.3
Managed funds	-	-	20.8	20.8
	151.4	1,115.5	20.8	1,287.7

Level 3 fair value measurements:

Level 3 Movements	Opening balance £ m	(Disposals)/ Additions £ m	Unrealised gains £ m	Purchases £ m	Closing balance £ m
2023					
Managed Funds	20.8	-	0.5	15.9	37.2
	20.8	**-**	**0.5**	**15.9**	**37.2**

Level 3 Movements	Opening balance £ m	(Disposals)/ Additions £ m	Unrealised gains £ m	Purchases £ m	Closing balance £ m
2022 restated					
Managed Funds	5.3	-	1.3	14.2	20.8
	5.3	**-**	**1.3**	**14.2**	**20.8**

Unrealised gains(losses) are recorded as other investment revenue/(expenses) in the Statement of Profit and Loss and Other Comprehensive Income.

Managed Funds
Valuation technique:
The loans are valued using a discounted cashflow model. The inputs to the valuation are cash flows, risk free rate and a credit spread.

The cash flow projections are determined by the loan terms and the risk free rate is overnight rate for the issuing currency (for example SONIA, SOFR, EURIBOR). These are all observable inputs.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 RISK MANAGEMENT POLICIES (continued)

Fair value hierarchy (continued)

The managed fund is a fund of funds (Fund). The Fund is extremely well diversified, with exposure to 28 different managed funds. The Fund is valued as the sum of the attributable proportion of the NAV reported for each managed fund. The funds are generally valued using a discounted cash-flow approach, where the cash flows are defined in the underlying loan terms and the discount rate is composed of a risk free curve and an assigned credit spread for the underlying loans. The assigned credit spread is an unobservable input but is not considered significant. Changes to the credit spreads of a single issuer are assumed to not have a material impact on the Fund’s valuation.

The Company has no intention of disposing any of these assets.

The Company has committed to invest in a managed fund up to €83.0m, the current investment in the fund is €40.6m.

20 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Liverpool Victoria General Insurance Group Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party Allianz Societas Europaea ("Allianz SE") is incorporated in Germany and is the parent of the largest and smallest group of undertakings for which financial statements are drawn up and of which the Company is a member.

Copies of the Allianz SE Group financial statements are available on request from the ultimate parent’s registered address Allianz SE, Königinstrasse 28, 80802 München, Germany.

21 CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a significant effect on its results and financial position.

22 RELATED PARTY TRANSACTIONS

22.1 Transactions with and balances from or to related parties

The Company enters into transactions with fellow group undertakings and key management personnel in the normal course of business. Details of transactions carried out during the year with related parties are as follows;

	2023	2022 restated
	£ m	£ m
Cost of repairs from Liverpool Victoria Repair Services Limited	309.6	218.6
Dividend from Liverpool Victoria Repair Services Limited	70.0	-
Management charge to the Company from Liverpool Victoria General Insurance Group Limited	293.9	275.2
Dividend to Liverpool Victoria General Insurance Group Limited	-	(10.0)
Capital injection from Liverpool Victoria General Insurance Group Limited	190.0	-
Capital injection to Highway Insurance Group Limited	(45.0)	(25.0)
Management charge to the Company from Liverpool Victoria Insurance Management Limited	8.8	12.1
Cost of services from Liverpool Victoria Assistance Services Limited	6.7	5.1

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

22 RELATED PARTY TRANSACTIONS (continued)

22.1 Transactions with and balances from or to related parties (continued)

Year-end balances arising with related parties are as follows:

	2023	2022
	£ m	£ m
Due from/(to) related parties at 31 December		
LVGIG group undertakings	2.3	(9.2)
Fairmead Insurance Limited	-	5.8
Total	**2.3**	**(3.4)**
Due to related parties at 31 December		
Allianz SE Group	(646.9)	(500.9)

The Company has quota share treaties with an Allianz SE Group reinsurance company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime and a loss portfolio transfer arrangement covering 2020 and prior accident years.

Management services were bought from Group companies LVGIG and LVIM. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given by the Company. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The Company considers its key management personnel to be the Directors only. The Company incurred £0.6m (2022: £1.1m) in respect of the services of key management personnel provided by a separate management entity within the LVGIG Group. Further information is disclosed in note 25.

	2023	2022 restated
	£ m	£ m
Loan to related parties at 31 December		
Other related parties	45.0	31.5
Total	**45.0**	**31.5**

Amounts repayable by related party, LVIM and Fairmead Insurance Limited, are detailed in note 12.

22.2 Investment in subsidiaries

No restrictions are placed on subsidiaries to transfer funds to the parent company in the form of cash dividends.

No guarantees or collateral were provided to subsidiaries. The Company is not liable for any contingent liabilities arising on the side of the subsidiaries and will not settle any liabilities on behalf of them.

23 EMPLOYEE RELATED COSTS

The Company has no employees (2022: none) and as such incurs no employee related costs (2022: £nil). AMS and LVGIG, companies within the Group, provide services and staff resources to the Company as well as to other Group Companies.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

24 AUDITORS' REMUNERATION

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by LVGIG. Other services supplied pursuant to legislation were £0.1m (2022: £0.1m).

	2023	2022
	£ m	£ m
Fees payable to the Company's auditors and its associates	1.6	0.6
Audit-related assurance services	0.1	0.1

25 DIRECTORS' EMOLUMENTS

The Directors' remuneration for the year was as follows:

	2023	2022
	£	£
Emoluments[(1)]	4,521,087	5,867,982
Company pension contributions to defined contribution schemes	3,981	
Number of Directors accruing benefits under defined contribution scheme	1	
In respect of the highest paid Director:		
Emoluments	1,290,985	2,422,866

[(1)]Emoluments include £609,636 (2022: £84,600) of payments received by two Directors' following the exercise of Restricted Stock Units (RSUs) under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE. Payments of £nil (2022: £217,396) were received as a Mid-Term Bonus as the three year deferred incentive plan has been discontinued.

The emoluments also include £180,000 (2022: £624,500) of payments received during 2023 for a Director relating to the vesting of LVGIG Long Term Incentive Plans ("LTIPs"). That Director also has a deferred payment of £130,000 (2022: £130,000) receivable in future years from the vesting of the LTIPs.

An individual who was previously a Director of the Company received a payment of £333,742 (2022: £177,409) following the exercise of RSUs relating to a grant in a previous year. The individual received £nil (2022: £206,612) under the Mid-Term Bonus scheme.

The Directors of the Company are also Directors of fellow Allianz Holdings plc Group companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz Holding plc Group directorships. Ten Directors emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Directors emoluments were paid by Allianz SE with costs borne by AMS and one Directors emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

26 SUBSEQUENT EVENTS

There have been no subsequent events after the Statement of Financial Position date.