Registered number: 00096205

Annual Report and Financial Statements 2023

Trafalgar Insurance Limited

Trafalgar Insurance Limited

Contents

Company Information

Directors:	C J Holmes U Lange G A Gibson
Company secretary:	C M Twemlow
Registered office:	57 Ladymead Guildford Surrey GU1 1DB
Registered number:	00096205
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountant 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
Trafalgar Insurance Limited ("the Company", "TIL") is a member of the Allianz Holdings plc group of companies ("Allianz", "the Group") which is one of the largest general insurers in the United Kingdom ("UK").

The Company ceased underwriting activity in 2006 and since that date has been actively managing the settlement and run-off of the remaining insurance contract liabilities.

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 Company formerly underwrote motor policies solely for brokers who were shareholders in Broker Direct Plc. The Company ceased underwriting private car business in 2004 and commercial vehicles in 2006. The Company's business operations are now solely in connection with the management of the run-off of the insurance contract liabilities.

The results for the year are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 13. The profit after tax for the year amounted to £418k (2022: £111k restated). The profit for the year arose primarily from investment income after deducting costs incurred relating to claims liabilities and other operating costs.

Key performance indicators ("KPIs")
The financial KPIs monitored by the Company are total comprehensive income for the year wholly attributable to the equity holders, equity and Minimum Capital Requirement ("MCR") coverage ratio.

The total comprehensive income for the year wholly attributable to the equity holders amounted to £407k (2022: £315k restated). At the year end, the Company had equity of £8,525k (2022: £8,118k restated) and an unaudited MCR coverage ratio of 243% (2022: 218%). The increase in equity during the year is a result of the total comprehensive income wholly attributable to the equity holders.

The Company does not monitor any non-financial key performance indicators.

Principal risks and uncertainties
We 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 14.

- **Reserve Risk –** best estimate reserves are monitored in light of emerging trends and economic conditions including inflationary pressures.
- **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.
- **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, we 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 Allianz cyber defences and abilities to prevent, detect and respond to the risks posed by cyber threats.

Principal risks and uncertainties (continued)

- **Conduct Risk -** we are monitoring Conduct Risk and continue to focus on doing the right thing for our customers and supporting them.
- **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 Operational Resilience requirements and Solvency II reforms.

Future outlook

Management intended to complete a transfer of all insurance related liabilities and assets under a Part VII transfer from the Company to Liverpool Victoria Insurance Company Limited ("LVIC") by the second quarter of 2024 and subsequently liquidate the Company. However, the Part VII project ceased without the transfer of all insurance related liabilities and assets. As such, there are no plans to liquidate the Company in the next 12 months.

No changes to the principal activity are anticipated in the foreseeable future. The company will continue to manage the run-off of its insurance contract liabilities. The Directors, therefore, have prepared the financial statements on a going concern basis.

Going concern

The Directors, having undertaken an assessment of the valuation of all assets and liabilities, consider that the Company has sufficient resources to continue operating for the foreseeable future and continue to meet all its liabilities and obligations as they fall due, and therefore, the financial statements have been prepared on the going concern basis.

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 mindful that as the Company has ceased to write new business, their duties can be most effectively discharged by focusing on managing the orderly and efficient run-off of the Company's business.

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 is a wholly owned subsidiary of Allianz Insurance plc ("AZI"), which is part of the Group. As a result of the governance structure of the Group, strategic decisions and matters which affect the whole Group are considered by the Board of the Group or its committees to an appropriate extent for the Group as a whole. Certain Group stakeholders and their interests (including customers, employees, community and the environment) are considered at and actions concerning them determined at a Group level by the Group Board and its committees rather than at a subsidiary Board level.

Group strategy and stakeholder considerations are understood by the Company's Directors as they are members of the Group Board and/or its Executive Committee or the wider Allianz senior management team. However, while oversight is carried out at Group level, any decisions put to the Company's Board are considered from the perspective of the Company and its stakeholders, including consideration of the matters set out in section 172 of the Companies Act 2006. The Board met twice during the year to discuss matters relevant to the Company's business.

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 Company's claims handling services are provided by the Group's experienced team. The services include ongoing supervision, claims handling skills, maintenance of system records (for both internal and any regulatory purposes) and continuity of service.

Strategic Report for the Year Ended 31 December 2023 (continued)

Section 172(1) Companies Act 2006 Statement (continued)

Employees

The Company does not employ any staff. During the year, Allianz Management Services Limited ("AMS"), a company within the Group, provided administration services and staff to the Company and to other Group companies. AMS has a high level of resources and expertise to benefit the Company.

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 regulatory considerations are given careful consideration when making decisions.

Regulations, guidance, policy statements, Dear Chief Executive Officer ("CEO") letters, Dear Chief Risk Officer ("CRO") letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Group Board, the Executive Committee and senior executives of the Allianz Commercial trading division to the extent relevant and taken into account by the Company when considering matters for approval. Where appropriate these deliberations are minuted. Other engagement methods with regulators include regular meetings and more detailed reviews by the Company Directors and at the Group level. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. In relation to its regulatory requirements, the Board reviewed and approved its relevant Solvency II reports.

Shareholder

The Company has regard to the interests of its immediate shareholder, AZI, the Group and Allianz Societas Europaea ("Allianz SE") Group when making decisions. Engagement is enabled by way of some of the Board members also being members of the Board of the Group.

Community and the Environment

The Company is acutely aware of the broader impact it has on its various environments, its customers and society in general, and adheres to and participates in the Group's corporate social responsibility policies and practices.

Board decision-making

During the year, the Board considered financial and risk related matters and undertook solvency monitoring including approval of the Company's Annual Report and Financial Statements and Solvency and Financial Condition Report. In reviewing and approving these important statutory and regulatory reports the Board had regard to its fiduciary and regulatory responsibilities and the need to promote the success of the Company for the benefit of its shareholder.

During the year, the Board also considered a decision to enter into a Revolving Loan Facility agreement which was being entered into with other key entities within the Group in order to provide operational flexibility to manage and protect investment income in the core insurance entity portfolios. In making the decision, the Board considered the interests of other key entities in the Group and how the arrangement supported operational liquidity management across the Group. The Board also considered the risks and impact of the arrangement, and in particular the impact on capital requirements of regulated entities. The Board approved that the Company enter into the Agreement after considering all stakeholders, mainly the other Group entities which were party to the Agreement and the regulator.

Stakeholders, their interests and the manner in which the Company engages with them, are integral to how the Group and the Company conduct business. When strategic and operational decisions are considered by the Board, the broader impacts on stakeholders are taken into account and this approach is embedded within the Group governance structure.

On behalf of the Board

U Lange
Director
26 June 2024

Directors' Report for the Year Ended 31 December 2023

The Directors present their audited Annual Report and 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 outlook.

Stakeholder Engagement statement

Details of how the Board has had regard to the need to foster the Company's business relationships with customers, regulators, suppliers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the Section 172(1) statement on page 3 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:

C N Dixon (resigned 2 February 2024)
F K Dyson (resigned 29 May 2023)
C J Holmes (appointed 01 May 2023)
U Lange (appointed 30 May 2023)
S C McGinn (resigned 30 April 2023)
G Gibson (appointed 3 February 2024)

Directors' liabilities

A qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

Results and dividends

The results for the year are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 13. A review of the Company's business activities and any likely future developments can be found in the Strategic Report on page 2.

No interim dividend was paid during the year ended 31 December 2023 (2022: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: £nil).

Going concern

The Directors' going concern assessment for the Company is outlined in the Strategic Report on page 3.

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.

Independent Auditors

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

By order of the Board

C M Twemlow
Company secretary
26 June 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 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
Director
26 June 2024

Independent auditors' report to the members of Trafalgar Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Trafalgar Insurance 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 profit 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 the 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.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

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 statement line items in the financial statements.

Key audit matters

- Valuation of insurance contract liabilities for incurred claims and the associated reinsurance contract assets - assumptions and judgements.

Materiality

- Overall materiality: £85,245 based on 1% of the Net Assets.
- Performance materiality: £63,934.

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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities for incurred claims and the associated reinsurance contract assets - assumptions and judgements.	
Refer to Notes 1, 2, 8, and 9 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'). The insurance contract liabilities are in relation to Periodic Payment Orders ('PPOs').	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 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 cash flows, 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 in valuing the LIC and AIC can be materially impacted by numerous factors including:	● Tested the completeness and accuracy of the underlying data (including but not limited to claims case estimates and paid claims) to relevant audit evidence;

● The risk of inappropriate assumptions used by management such as inflation and longevity, in respect of PPOs.	● Tested the methodologies and assumptions used by management to derive their undiscounted best estimate liability as at 31 December 2023, and whether these produced reasonable estimates based on the company's facts and circumstances;
● The methodology and assumptions used by management to calculate the discount rates, the most subjective component being the illiquidity premium, and the cashflow payment patterns used;	● Evaluated the appropriateness of the methodology used to determine discount rates, assessed the appropriateness of the cashflow 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.	● Assessed the consistency of the methodology, assumptions and input parameters with the previously audited risk adjustment at 31 December 2022 and tested the derivation of the adjustment. Tested that the risk adjustment is consistent with the confidence level disclosed; and ● Tested the accuracy of application of reinsurance contract terms to determine the relevant reinsurance fulfilment cash flows. The valuation of the LIC and AIC is consistent with the work performed and evidence obtained.

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	£85,245
How we determined it	1% of the Net Assets
Rationale for benchmark applied	The materiality amount selected is appropriate to the size and nature of the business. We consider net assets as the primary measure used by the shareholders in assessing the insurance run-off activities of this company.

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 £63,934 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 £4,262 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;
- 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 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;
- Testing the valuation of insurance contract liabilities for incurred 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 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2018 to 31 December 2023.

NBrooks

Natalie Brookes (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

26 June 2024

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

	Note(s)	2023 £ 000	2022 restated £ 000
Insurance service income/(expenses)	3, 8(a)	873	(187)
Net (expenses)/income from reinsurance contracts held	8 (b)	(763)	212
Insurance service result		**110**	**25**
Net investment income	4	**450**	**134**
Finance expenses from insurance contracts issued	5(a)	(97)	(96)
Finance income from reinsurance contracts held	5(b)	86	84
Net insurance finance expense	5	**(11)**	**(12)**
Net insurance and investment result		**549**	**147**
Other operating and administrative expenses	3	(3)	(3)
Profit before tax		**546**	**144**
Income tax expense	6 (a)	(128)	(33)
Profit for the year wholly attributable to the equity holders		**418**	**111**
Other comprehensive (expense)/income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Finance (expenses)/income from insurance contracts issued	5(a)	(554)	2,354
Finance income/(expenses) from reinsurance contracts held	5(b)	540	(2,082)
Income tax credit/(expense) relating to these items	6(b)	3	(68)
Other comprehensive (expense)/income for the year		**(11)**	**204**
Total comprehensive income attributable to the equity holder		**407**	**315**

The accounting policies and notes on pages 17 to 41 are an integral part of these financial statements.

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

	Note	Share capital £ 000	Insurance finance reserve £ 000	Retained earnings £ 000	Total £ 000
Balance as at 1 January 2022 as previously reported		**6,000**	**-**	**1,847**	**7,847**
Adjustment on initial application of IFRS 17	1.3.1	-	-	(44)	(44)
Restated balance as at 1 January 2022		**6,000**	**-**	**1,803**	**7,803**
Profit for the year		-	-	111	111
Other comprehensive income		-	204	-	204
Restated total comprehensive income for the year		**-**	**204**	**111**	**315**
Restated balance as at 31 December 2022		**6,000**	**204**	**1,914**	**8,118**
Restated balance as at 1 January 2023		**6,000**	**204**	**1,914**	**8,118**
Profit for the year		-	-	418	418
Other comprehensive expense		-	(11)	-	(11)
Total comprehensive (expense)/income for the year		**-**	**(11)**	**418**	**407**
Balance as at 31 December 2023		**6,000**	**193**	**2,332**	**8,525**

The accounting policies and notes on pages 17 to 41 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	**£ 000**	**£ 000**	**£ 000**
Reinsurance contract assets	8	3,859	4,228	6,213
Deferred tax assets	6(e)	-	-	13
Other receivables	10	8,938	8,736	8,871
Cash and cash equivalents	11	328	58	54
Total assets		**13,125**	**13,022**	**15,151**
Equity and liabilities				
Equity attributable to equity holder of the parent				
Share capital	12	(6,000)	(6,000)	(6,000)
Insurance finance reserve		(193)	(204)	-
Retained earnings		(2,332)	(1,914)	(1,803)
Total equity		**(8,525)**	**(8,118)**	**(7,803)**
Liabilities				
Insurance contract liabilities	8	(4,276)	(4,763)	(7,113)
Deferred tax liabilities	6(e)	(65)	(85)	-
Other payables	13	(114)	(53)	(200)
Current tax liabilities	6(d)	(145)	(3)	(35)
Total liabilities		**(4,600)**	**(4,904)**	**(7,348)**
Total equity and liabilities		**(13,125)**	**(13,022)**	**(15,151)**

The accounting policies and notes on pages 17 to 41 are an integral part of these financial statements.

These financial statements on pages 13 to 41 were approved by the Board of Directors on 20 June 2024 and signed on its behalf by:

U Lange
Director
26 June 2024

Trafalgar Insurance Limited
Registered Number: 00096205

Statement of Cash Flows
For the Year Ended 31 December 2023

	Note	2023 £ 000	2022 restated £ 000
Cash flows from operating activities			
Profit before tax		**546**	**144**
Investment income	4	(450)	(134)
		96	**10**
Changes in working capital			
Decrease in reinsurance contract assets	8	369	1,985
Decrease in insurance contract liabilities	8	(487)	(2,350)
Change in insurance finance reserve		(14)	272
Decrease in other receivables	10	248	269
Increase/(decrease) in accruals and other payables	13	61	(147)
Cash generated from operations		**273**	**39**
Income tax paid	6(c)	(3)	(35)
Net cash flow generated from operating activities		270	4
Net increase in cash and cash equivalents		**270**	**4**
Cash and cash equivalents at the beginning of the year	11	**58**	54
Cash and cash equivalents at the end of the year	11	**328**	**58**

The accounting policies and notes on pages 17 to 41 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

Trafalgar Insurance Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom, whose shares are not publicly quoted.

1.2 Statement of compliance

The financial statements of the Company have been prepared on a going concern basis and approved by the Directors 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 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
Insurance contract liabilities and reinsurance contract assets	Fulfilment cash flows (“FCF”)

The functional and presentational currency is British Pounds.

Going concern

The Directors, having undertaken an assessment of the valuation of all assets and liabilities, consider that the Company has sufficient resources to continue operating for the foreseeable future and continue to meet all its liabilities and obligations as they fall due, and therefore, the financial statements have been prepared on the going concern basis.

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 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 UKEB 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. 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.

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

1 ACCOUNTING POLICIES (continued)

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

	£ 000
Retained earnings	
Opening balance under IFRS 4/IAS 39, as previously reported at 1 January 2022	1,847
Impact of initial application of IFRS 17	(57)
Deferred tax in relation to IFRS 17 application	13
Opening balance under IFRS 9 and IFRS 17, as restated at 1 January 2022	**1,803**
Total change in equity (net of tax) due to the application of new standards	
Retained earnings	(44)
Total change in equity due to the application of IFRS 17	**(44)**

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 Contractual Service margin ("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 historic 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. 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 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 SOCI are disaggregated between insurance finance income/(expense) in the Profit and Loss (on a locked in basis) and Other Comprehensive Income ("OCI") (the difference between the current and locked-in rate).
- Income/(expenses) from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in SOCI. 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 contracts issued and reinsurance contracts held and presents separately:

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

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

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

1 ACCOUNTING POLICIES (continued)

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

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

- Gross insurance claims paid
- Reinsurers' share of gross insurance claims paid
- Gross change in insurance liabilities
- Reinsurers' share of gross change in insurance liabilities
- Commission
- Reinsurance commission

Instead, IFRS 17 requires separate presentation of:

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

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 ("SOCIE").

The Company applied the modified retrospective approach as 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 liability for incurred claims, and thus affecting the allocation of insurance finance income and expense between the income statement 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.

1.4 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. 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 are set out in the following paragraphs.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(a) Income taxes
Income tax on the profit and loss for the year comprises current tax. Income tax is recognised in the income tax charge.

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 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.

(b) 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.

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.

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 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. The explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC (on a gross and ceded basis).

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(b) Insurance and reinsurance contracts (continued)

Fulfilment cash flows within contract boundary (continued)

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. Refer to note 2.1 for further information.

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 uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and 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 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

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 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.

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 9.

Initial and subsequent measurement

All of the Company's gross and reinsurance contracts have a duration of one year or less and are automatically eligible for the PAA measurement model.

The carrying amount of a group of insurance contracts issued at the end of each reporting period is 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 incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(b) Insurance and reinsurance contracts (continued)

Initial and subsequent measurement (continued)

There are no investment components within insurance contracts issued and reinsurance contracts held that are measured under the PAA.

Insurance service expenses

Insurance service expenses include the following:

a. incurred claims and benefits;
b. other incurred directly attributable expenses; and
c. changes that relate to past service – changes in the FCF relating to the LIC.

Other expenses not meeting the above categories are included in Other operating and administrative expenses in the SOCI.

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 reinsurance recovery;
c. other incurred directly attributable expenses;
d. changes relating to past service (i.e. adjustments to incurred claims); and
e. effect of changes in the risk of reinsurers' non-performance.

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. Amounts presented in OCI are accumulated in the insurance finance reserve. The Company disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

(c) Other receivables

Trade and other receivables are initially recognised and subsequently re-measured at amortised cost after taking into account any impairment losses. Trade and other receivables shall be derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

An expected credit loss ("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 probability of default ("PD"), an appropriate loss given default ("LGD") and the number of days to maturity as a fraction of a year ("tenor").

(d) 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.

1 ACCOUNTING POLICIES (continued)

1.4 Summary of material accounting policy information (continued)

(d) Cash and cash equivalents (continued)

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.

(e) Other Payables

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

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.

(a) 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.

At the point of transition, the Company has applied the modified retrospective approach to the calculation of the liability for incurred claims due to the following key information not being readily available without undue cost and effort:

- The Company's reserving processes only maintains individual accident year data for the previous 15 years, prior to this reserves are grouped together. Therefore, at transition, claims reserves on an accident year basis will only be available back to 2005.
- Data to determine the "locked-in" discount rates by annual cohort is not readily available for 2014 and prior years, therefore the "locked-in" discount rate used for 2014 and prior years is the "locked-in" discount rate at January 2022. As a result, no OCI for changes in discount rates is recognised at transition for 2014 and prior years.
- Data to determine the "locked-in" PPO inflation assumptions is not readily available for PPOs settled in 2013 and prior years, therefore the "locked-in" PPO inflation assumption used for PPOs settled in 2013 and prior years is the "locked-in" PPO inflation assumption at 1 January 2022.

2.1 Assumptions and estimation uncertainties

The main source of uncertainty is the two PPO claims which are projected and sensitive to the following key assumptions:

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'). This is an area of significant uncertainty given the majority of reserves are PPOs, which are projected over a longer-term period. Further details on the methodology and assumptions used to derive the discount rate is detailed in Note 9.

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

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

2.1 Assumptions and estimation uncertainties (continued)

The Company adopts the OCI approach in relation to insurance finance income and expenses, 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 that arises from changes in the interest rates and also ensures any accounting mismatch between the valuation of the Company's financial assets and insurance liabilities are minimised. "Locked-in" interest rate assumptions are required to disaggregate the effect of discounting and changes in the discount rate between the Profit and Loss and Other Comprehensive Income. Further details on the methodology and assumptions used to derive the “locked-in” rates is detailed in Note 9.

Cashflow 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 9 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 (“CoC”) method was used to derive the overall risk adjustment for non-financial risk. To demonstrate the significance of the CoC input, sensitivity has been performed on the impact of changes to the CoC in Note 9. Further details on the methods and assumptions used to measure the risk adjustment for non-financial risk and the corresponding confidence level are also provided in Note 9.

Inflation: Reserves are also sensitive to the assumed PPO inflation. 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 & Loss. Similarly, “locked-in” PPO inflation assumptions are required to disaggregate the changes in liabilities between the P&L and OCI. Further details on PPO inflation is detailed in Note 9. See Note 14 for sensitivities highlighting the significance of the PPO inflation assumption.

Life Expectancy: PPO claims have to be projected over a long-term period, and are therefore sensitive to the assumed claimant life expectancy. See Note 14 for sensitivities highlighting the significance of the life expectancy assumption.

3 EXPENSES

		2023 £ 000	2022 restated £ 000
Claims and benefits		(873)	188
Administrative expenses		3	3
		(870)	**191**
Represented by:			
- Insurance service (income) / expenses	8 (a)	(873)	188
- Other operating expenses and administrative expenses		3	3
Total		**(870)**	**191**

4 NET INVESTMENT INCOME

	2023 £ 000	2022 £ 000
Interest income	450	134
Total investment income	**450**	**134**

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

5 NET INSURANCE FINANCE EXPENSES

	2023		2022 restated	
	Recognised in profit and loss	Recognised in OCI	Recognised in profit and loss	Recognised in OCI
	£ 000	£ 000	£ 000	£ 000
(a) Finance (expenses)/income from insurance contracts				
Interest accretion	(97)	(554)	(96)	2,354
Finance (expenses)/income from insurance contracts	**(97)**	**(554)**	**(96)**	**2,354**
(b) Finance income/(expenses) from reinsurance contracts				
Interest accretion	86	540	84	(2,082)
Finance income/(expenses) from reinsurance contracts	**86**	**540**	**84**	**(2,082)**
Total insurance finance (expenses)/income	**(11)**	**(14)**	**(12)**	**272**

6 INCOME TAX

(a) Income tax recognised in profit and loss

	2023 £ 000	2022 restated £ 000
Current tax:		
In respect of the current year	145	3
Total current tax	**145**	**3**
Deferred tax:		
In respect of the current year	(17)	24
Adjustments to deferred tax attributable to changes in tax rates and laws	-	6
Total deferred tax	**(17)**	**30**
Total income tax expense recognised in the current year	**128**	**33**

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

	2023 £ 000	2022 restated £ 000
Profit before tax	**546**	**144**
Income tax expense calculated at 23.5% (2022: 19%)	128	27
Effect of change in statutory tax rate	-	6
Income tax expense recognised in profit and loss	**128**	**33**

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.

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

6 INCOME TAX (continued)

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

The Organisation for Economic Cooperation and Development ("OECD") Pillar Two model rules
The group is within the scope for 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 group has no related current tax exposure. The 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 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 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 is not yet reasonably estimable. Therefore, even for those entities with an accounting effective tax rate above 15%, there might still be Pillar Two tax implications. The group is currently engaged with tax specialists to assist it with applying the legislation.

(b) Income tax recognised in other comprehensive income

	2023 £ 000	2022 restated £ 000
Deferred tax	(3)	68
Total income tax recognised in other comprehensive income	**(3)**	**68**

(c) Tax paid for cash flow purposes

	2023 £ 000	2022 restated £ 000
Current tax payable at 1 January	**3**	**35**
Amounts charged to the profit and loss	128	33
Movements in deferred tax asset in the statement of comprehensive income	17	(30)
Tax paid during the year	(3)	(35)
Current tax payable at 31 December	**145**	**3**

(d) Current tax liabilities

	2023 £ 000	2022 restated £ 000
Current tax liabilities	**145**	**3**

(e) Deferred tax balances

Deferred tax asset

	2023 £ 000	2022 restated £ 000
Unrealised losses on insurance and reinsurance assets/liabilities	385	521
IFRS17 transitional adjustment	-	-
Total deferred tax assets	**385**	**521**
Set-off of deferred tax liabilities pursuant to set-off provisions	(385)	(521)
Net deferred tax assets	**-**	**-**

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

6 INCOME TAX (continued)

(e) Deferred tax balances (continued)

Movements in relation to deferred tax assets	Unrealised losses on insurance and reinsurance assets/liabilities	IFRS17 Profit and loss transitional adjustment	Total
	£ 000	£ 000	£ 000
At 1 January 2022 - restated	-	13	13
Credited/(charged)			
- to profit and loss	-	(13)	(13)
- to other comprehensive income	521	-	521
At 31 December 2022 - restated	**521**	**-**	**521**
At 1 January 2023	**521**	**-**	**521**
(Charged)			
- to profit and loss	-	-	-
- to other comprehensive income	(136)	-	(136)
At 31 December 2023	**385**	**-**	**385**

Deferred tax liability

	2023	2022 restated
	£ 000	£ 000
Unrealised gains on reinsurance contract assets and insurance contract liabilities	**450**	**589**
IFRS17 transitional adjustment	**-**	**17**
Total deferred tax liabilities	**450**	**606**
Set-off of deferred tax liabilities pursuant to set-off provisions	(385)	(521)
Net deferred tax liabilities	**65**	**85**

Movements in relation to deferred tax liabilities	Unrealised gains/(losses) on reinsurance assets and insurance liabilities
	£ 000
At 1 January 2022	-
Credited/(charged)	
- to profit and loss	17
- to other comprehensive income	589
At 31 December 2022	606
At 1 January 2023	606
Credited/(charged)	
- to profit and loss	(17)
- to other comprehensive income	(139)
At 31 December 2023	450

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

6 INCOME TAX (continued)

(e) Deferred tax balances (continued)

	2023 £ 000	2022 restated £ 000
Deferred tax asset	-	-
Deferred tax liability	(65)	(85)
Current deferred tax liability	-	(17)
Non-current deferred tax liability	(65)	(68)

7 DIVIDENDS

No interim dividend was paid during the year ended 31 December 2023 (2022: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: £nil).

8 INSURANCE AND REINSURANCE CONTRACTS

	2023 £ 000	2022 restated £ 000
Insurance contracts		
Insurance contract liabilities		
- Insurance contract balances	4,276	4,763
	4,276	**4,763**
Reinsurance contracts		
- Reinsurance contract assets	3,859	4,228
	3,859	**4,228**

Included in amounts of reinsurance contracts are balances due from related parties of £58k (2022: £71k).

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

	2023 Current portion £ 000	2023 Non-current portion £ 000	2023 Total £ 000	2022 restated Current portion £ 000	2022 restated Non-current portion £ 000	2022 restated Total £ 000
Insurance contract liabilities	(256)	(4,020)	(4,276)	(384)	(4,379)	(4,763)
Reinsurance contract assets	361	3,498	3,859	328	3,900	4,228

The two separate PPOs are associated with accidents that gave rise to claims against TIL underwritten policies. In 2008, the PPOs were ordered by the respective courts and AZI was listed as the defendant insurer and is therefore legally responsible for complying with the obligations under the respective PPOs. Financially and operationally the liability under the PPOs has been dealt with by TIL. TIL and AZI signed a “Deed of indemnity” on 3 April 2023 (“Deed”). The Deed formally documented the roles and responsibilities that each of the parties have carried out since the creation of the respective PPOs, as such, this has not changed the arrangement or the accounting treatment but documents what is understood to have happened in practice. TIL continues to be liable to indemnify AZI in respect of any and all liabilities arising in connection with the PPOs and the deed of indemnity formally documents this position.

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

8 INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Reconciliation of the liability for remaining coverage and the liability for incurred claims
The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts changed during the year as a result of cash flows and amounts recognised in the statement of profit and loss and OCI.

	2023 Liability for incurred claims		Total
	Present value of future cash flows £ 000	Risk adjustment for non-financial risk £ 000	£ 000
Opening liabilities	(4,589)	(174)	(4,763)
Net opening balance	**(4,589)**	**(174)**	**(4,763)**
Insurance service income			
Changes that relate to past service – changes in the FCF relating to the LIC	814	59	873
Insurance service income	**814**	**59**	**873**
Finance expenses from insurance contracts issued	(630)	(21)	(651)
Total amounts recognised in comprehensive income	**184**	**38**	**222**
Cash flows			
Claims and other directly attributable expenses paid	265	-	265
Total cash flows	**265**	**-**	**265**
Net closing balance	**(4,140)**	**(136)**	**(4,276)**
Closing liabilities	(4,140)	(136)	(4,276)
Net closing balance	**(4,140)**	**(136)**	**(4,276)**

	2022 restated Liability for incurred claims		Total
	Present value of future cash flows £ 000	Risk adjustment for non-financial risk £ 000	£ 000
Opening liabilities	(6,793)	(320)	(7,113)
Net opening balance	**(6,793)**	**(320)**	**(7,113)**
Insurance service expenses			
Incurred claims and other directly attributable expenses	-	-	-
Changes that relate to past service – changes in the FCF relating to the LIC	(288)	101	(187)
Insurance service expenses	**(288)**	**101**	**(187)**
Finance expenses from insurance contract issued	2,213	45	2,258
Total amounts recognised in comprehensive income	**1,925**	**146**	**2,071**
Cash flows			
Claims and other directly attributable expenses paid	279	-	279
Total cash flows	**279**	**-**	**279**
Net closing balance	**(4,589)**	**(174)**	**(4,763)**
Closing liabilities	(4,589)	(174)	(4,763)
Net closing balance	**(4,589)**	**(174)**	**(4,763)**

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

8 INSURANCE AND REINSURANCE CONTRACTS (continued)

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

	2023 Incurred claims for contracts		Total
	Present value of future cash flows £ 000	Risk adjustment for non-financial risk £ 000	£ 000
Opening assets	4,077	151	4,228
Net opening balance	**4,077**	**151**	**4,228**
Net (expenses)/income from reinsurance contracts held			
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	(715)	(52)	(767)
Effect of changes in the risk of reinsurers' non-performance	4	-	4
Net (expenses) from reinsurance contracts held	**(711)**	**(52)**	**(763)**
Finance income from reinsurance contracts held	607	18	625
Total amounts recognised in comprehensive income	**(104)**	**(34)**	**(138)**
Cash flows			
Recoveries from reinsurance	(231)	-	(231)
Total cash flows	**(231)**	**-**	**(231)**
Net closing balance	**3,742**	**117**	**3,859**
Closing assets	3,742	117	3,859
Net closing balance	**3,742**	**117**	**3,859**

	2022 restated Incurred claims for contracts		Total
	Present value of future cash flows £ 000	Risk adjustment for non-financial risk £ 000	£ 000
Opening assets	5,940	**273**	6,213
Net opening balance	**5,940**	**273**	**6,213**
Net income / (expenses) from reinsurance contracts held			
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	260	(84)	176
Effect of changes in the risk of reinsurers' non-performance	36	-	36
Net income/(expenses) from reinsurance contracts held	**296**	(84)	**212**
Finance expenses from reinsurance contracts held	(1,960)	(38)	(1,998)
Total amounts recognised in comprehensive income	**(1,664)**	**(122)**	**(1,786)**
Cash flows			
Recoveries from reinsurance	(199)	-	(199)
Total cash flows	**(199)**	-	**(199)**
Net closing balance	**4,077**	**151**	**4,228**
Closing assets	4,077	151	4,228
Net closing balance	**4,077**	**151**	**4,228**

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

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

The Company formerly underwrote motor policies, ceasing private car business in 2004 and commercial vehicles in 2006. As a result, there is no exposure in 2007 or later years. All of the Company's policies covered a 12-month duration, therefore the PAA measurement approach is automatically eligible for all liabilities.

9.1 Methodology and assumptions

Claims provisions are established to cover the ultimate costs of settling the liabilities in respect of claims that have occurred. The claims provision is determined on a case by case basis.

The claim experience is reviewed quarterly to ensure that there are no unexpected developments. The payment cash flow pattern is set based on expert judgement and reviewed annually.

The provision for non-periodical payment order claims is £nil.

(a) Annuity type liabilities

The majority of the Company's outstanding claims provisions relates to provisions associated with the settlement of high value personal injury claims by way of periodic payment orders ("PPOs") established under the Courts Act 2003. During 2023, no PPOs have expired, and no new settlements were agreed on this basis, making the total number of outstanding PPOs unchanged at two. Total PPO claims reserves are £4,101k (2022: £4,505k) discounted gross and £493k (2022: £632k) discounted net of reinsurance. The corresponding undiscounted amounts are £7,248k (2022: £8,452k) gross and £980k (2022: £1,076k) net of reinsurance.

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 and Loss. This reduces the volatility in the Insurance Service Result that arises from changes in the PPO inflation assumption.

To enable the disaggregation of changes in liabilities between the Profit and Loss and OCI requires the use of "locked-in" PPO inflation assumptions used in the valuation of the PPOs when the PPO was settled at the date of the court order. Changes between the "locked-in" PPO inflation assumption and current PPO inflation assumption is recognised within OCI. Where the "locked-in" PPO inflation assumption is not available, the modified retrospective approach is adopted, and the PPO inflation assumption assumed at transition is used for these years.

(b) 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 selected using a scenario-based approach.

(c) Discounting

Insurance contract liabilities are discounted to reflect the time value of money and their associated illiquidity characteristics. This is a key assumption for the PPOs as it is long tailed in nature.

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 as a proxy to determine the implied illiquidity premium for insurance liabilities. 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 Ultimate Forward Rate ("UFR") assumption which represents real average long-term risk-free rate including inflation.

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

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

(c) Discounting (continued)

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:

Insurance liabilities and assets	1 year	3 years	5 years	10 years	20 years	30 years
2023	4.77%	3.89%	3.67%	3.83%	4.18%	4.11%
2022	4.48%	4.58%	4.45%	4.36%	4.41%	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 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. 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.

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.

(d) 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 ("CoC") 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 CoC 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% 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 £ 000	Impact on profit before tax net of reinsurance £ 000	Impact on equity gross of reinsurance £ 000	Impact on equity net of reinsurance £ 000
Risk adjustment CoC rate				
Reduce from 6% to 4%	56	8	45	6

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

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

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

	2022 restated			
Change in assumptions	**Impact on profit before tax gross of reinsurance £ 000**	**Impact on profit before tax net of reinsurance £ 000**	**Impact on equity gross of reinsurance £ 000**	**Impact on equity net of reinsurance £ 000**
Risk adjustment CoC rate				
Reduce from 6% to 4%	74	10	58	8

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, mainly reserve risk (excluding PPO inflation which is considered a financial 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 fulfilling its insurance contract.

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 planning dialogue, management reporting and KPIs used for monitoring.

The resulting amount of the calculated net risk adjustment corresponds to the confidence level of the ultimate position, which is 74.6% (2022: 70.9%) against a reserve risk distribution based on Group's benchmarking for similar business.

Similar to the best estimate of FCF, 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 disaggregation approach is also applied to the risk adjustment. For further details on these assumptions, see Section 9(c).

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

9.2 Loss development triangles

The Insurance Contract Liabilities as per the SOFP in respect of accident years prior to 2023 is £4,276k, which is split £7,337k undiscounted best estimate fulfilment Cash flows, £(3,184)k discounting effect on best estimate fulfilment Cash flows, £136k effect of risk adjustment for non-financial risk and £(13)k other payables. (2022: £4,763k, which is split £8,630k undiscounted best estimate fulfilment Cash flows, £(4,028)k discounting effect on best estimate fulfilment Cash flows, £174k effect of risk adjustment for non-financial risk and £(13)k other payables).

The Net Insurance Contract Liabilities to 2023 is £417k, which is split £1,056k undiscounted best estimate fulfilment Cash flows, £(525)k discounting effect on best estimate fulfilment Cash flows, £20k effect of risk adjustment for non-financial risk and £(134)k other payables. (2022: £535k, which is split £1,208k undiscounted best estimate fulfilment Cash flows, £(511)k discounting effect on best estimate fulfilment Cash flows, £23k effect of risk adjustment for non-financial risk and £(185)k other payables).

No new losses have been incurred since the 2006 accident year.

Whilst the information provides a historical perspective on the adequacy of the unpaid claims estimates established on previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding as at the end of 2023 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be sufficient.

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

10 OTHER RECEIVABLES

	2023 £ 000	2022 £ 000
Amounts due from related parties[1]	8,938	8,736
Total other receivables	**8,938**	**8,736**

[1]Included in amounts due from related parties is £8,886k (2022: £8,644k) due from the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

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 impact on the valuation of receivables reported in the Financial Statements.

11 CASH AND CASH EQUIVALENTS

	2023 £ 000	2022 £ 000
Cash and cash equivalents	328	58
Total cash and cash equivalents	**328**	**58**

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 EQUITY

Share capital – allotted, called up and fully paid

	2023		2022	
	No.	**£**	**No.**	**£**
Ordinary shares of £1 each	6,000,000	6,000,000	6,000,000	6,000,000

13 OTHER PAYABLES

	2023 £ 000	2022 £ 000
Amounts due to related parties	114	53
Total other payables	**114**	**53**

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

14 RISK MANAGEMENT POLICIES

Before closing to new business in 2006 the Company underwrote the motor business of Broker Direct Plc which commenced business operations in 1997. The Company ceased underwriting private car business, which represented the bulk of the portfolio in 2004 and the remaining commercial vehicles business in early 2006. The business was wholly written in the UK and risk exposure was confined to the UK. The Company's business operations are now limited to managing the run-off of the insurance liabilities.

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.

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

14 RISK MANAGEMENT POLICIES (continued)

Insurance risk (continued)

To provide protection to the Company, reinsurance is purchased. 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.

As the Company is no longer underwriting new business, insurance risk is confined to whether actual claims will exceed insurance liabilities. Sensitivity to the potential impact of a change in the Ogden discount rate has been considered and has been deemed not significant as the Company holds reserves for settled PPOs only.

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.
- Life expectancy: assumed to be 4 years greater for each PPO claimant, which also has a knock on impact on the risk adjustment.

	2023			
Change in assumptions	**Impact on profit before tax gross of reinsurance £ 000**	**Impact on profit before tax net of reinsurance £ 000**	**Impact on equity gross of reinsurance £ 000**	**Impact on equity net of reinsurance £ 000**
Timing of cash flows				
Increase by 1 year	90	13	171	22
Decrease by 1 year	(88)	(13)	(175)	(22)
Life expectancy				
Increase by 4 years	(1,225)	(166)	(622)	(84)

	2022 restated			
Change in assumptions	**Impact on profit before tax gross of reinsurance £ 000**	**Impact on profit before tax net of reinsurance £ 000**	**Impact on equity gross of reinsurance £ 000**	**Impact on equity net of reinsurance £ 000**
Timing of cash flows				
Increase by 1 year	105	15	201	31
Decrease by 1 year	(103)	(13)	(203)	(27)
Life expectancy				
Increase by 4 years	(1,354)	(191)	(641)	(89)

Note that these sensitivities demonstrates 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 reinsurance contract assets, premiums receivable and other receivables 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.

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

14 RISK MANAGEMENT POLICIES (continued)

Insurance risk (continued)

(a) Market risk (continued)

i) Interest rate risk
Interest rate risk is the risk that interest rates will change, adversely affecting the market 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.

It also impacts the valuation of insurance contract liabilities as the liability for incurred claims is discounted to reflect the time value of money.

At 31 December 2023 the average duration of the cash and cash equivalent portfolios was 1 day (2022: 1 day) compared with the average duration of the estimate of undiscounted Cash flows which is estimated to be 15.7 years (2022: 16.0 years).

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 affect the company’s net asset value.

iii) Inflation risk
Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities.

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, and is closely monitored as part of the setting of reserves, which is 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. The PPO outstanding claims provisions sensitivity to inflation is set out in note 14(a)(vi) below.

iv) 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.

v) Currency risk
Currency risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency denominated assets or liabilities. All of the Company's financial assets are denominated in sterling. There are no liabilities denominated in a foreign currency.

vi) Sensitivity to market risk
The table below shows the sensitivity of the Company’s profit and 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. 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. This does not affect the P&L due to “locked-in” PPO assumptions used.

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

14 RISK MANAGEMENT POLICIES (continued)

(a) Market risk (continued)

vi) Sensitivity to market risk (continued)

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
	£ 000	£ 000	£ 000	£ 000
Interest rate risk				
+100 basis points shift in yield curves	-	-	478	71
-100 basis points shift in yield curves	-	-	(574)	(88)
PPO inflation				
+100 basis points shift in yield curves	-	-	(43)	(5)
-100 basis points shift in yield curves	-	-	43	5

2022 restated

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
	£ 000	£ 000	£ 000	£ 000
Interest rate risk				
+100 basis points shift in yield curves	-	-	541	67
-100 basis points shift in yield curves	-	-	(654)	(82)
PPO inflation				
+100 basis points shift in yield curves	-	-	(48)	(7)
-100 basis points shift in yield curves	-	-	48	7

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.

Note that these sensitivities demonstrates 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 cash and cash equivalents, reinsurance contract assets and other receivables.

The Company manages credit risk for financial assets 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.

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

14 RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

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 the reinsurance contract assets to be low. 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. The largest reinsurance counterparty risk at 31 December 2023 was £3,990k (2022: £4,275k).

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.

2023

	AAA-A	Others not rated	Total
	£ 000	£ 000	£ 000
Reinsurance contracts assets	3,568	291	3,859
Amounts due from related parties and other receivables[1]	8,938	-	8,938
Cash and cash equivalents	328	-	328
Total	**12,834**	**291**	**13,125**
Percent	97.8%	2.2%	100%

2022 restated

	AAA-A	Others not rated	Total
	£ 000	£ 000	£ 000
Reinsurance contracts assets[1]	3,922	306	4,228
Amounts due from related parties and other receivables[2]	8,736	-	8,736
Cash and cash equivalents	58	-	58
Total	**12,716**	**306**	**13,022**
Percent	97.7%	2.3%	100%

[1] Included in Reinsurance contract assets are balances due from related parties of £58k (2022: £71k).

[2] Included in amounts due from related parties and other receivables is £8,886k (2022: £8,644k) due from the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

(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 insurance contract liabilities. The Company has sufficient liquid assets to meet obligations as they fall due. In regards to liquidity risk associated with the other receivables along with cash and cash equivalents, these are readily realisable. As a result, the Company' s exposure to liquidity risk is low and in the risk capital model used by the Company no capital is allocated to this risk since holding capital is not viewed as a mitigant for liquidity risk. The following tables show information about the estimated timing of the contractual undiscounted cash flows from the Company's financial 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.

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

14 RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

2023	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	5 – 10 years	More than 10 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Insurance contract liabilities	(4,276)	(213)	(217)	(675)	(1,207)	(5,025)	(7,337)
Reinsurance contract assets	3,859	192	195	604	1,067	4,223	6,281

2022 restated	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	5 – 10 years	More than 10 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Insurance contract liabilities	(4,763)	(318)	(234)	(732)	(1,316)	(6,030)	(8,630)
Reinsurance contract assets	4,228	97	215	667	1,181	5,264	7,424

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 MCR and the Solvency Capital Requirement ("SCR"). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 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 SCR to ensure that the Company is adequately capitalised in most expected circumstances.

The Company's capital comprises total shareholders' equity and amounts to £8,525k (2022: £8,118k).

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

14 RISK MANAGEMENT POLICIES (continued)

Capital management (continued)

The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2023 the own funds amount to £8,476k with a surplus of 143% on MCR (2022: own funds amount to £7,587k with a surplus of 118% on MCR). The own funds and MCR are unaudited.

15 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Allianz Insurance plc, a company registered in England and Wales.

The ultimate parent and controlling party, 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.

The most senior parent entity producing publicly available financial statements is Allianz SE. These financial statements are available upon request from their registered office address of Allianz SE, Königinstrasse 28, 80802 München, Germany.

16 RELATED PARTY TRANSACTIONS

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 £ 000	2022 £ 000
Administrative and claims handling service fees	56	53
Reinsurers' share of gross insurance claims paid	81	90
Amounts transferred from cash pool	241	(46)

Year-end balances arising from transactions carried out with related parties are as follows:

Due from related parties at 31 December	2023 £ 000	2022 £ 000
Parent	53	91
Other related parties	8,944	8,716
Total	**8,997**	**8,807**

Due to related parties at 31 December	2023 £ 000	2022 £ 000
Other related parties	114	53
Total	**114**	**53**

The Company considers its key management personnel to be the Directors only. No charge (2022: £nil) was incurred by the Company in respect of the services of key management personnel provided by a separate management entity within the Group. Further information is disclosed in note 18.

17 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, provides 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)

18 DIRECTORS' EMOLUMENTS

The remuneration of C Holmes, C N Dixon, F K Dyson and S C McGinn was paid by AMS. The remuneration of U Lange was paid by Allianz SE with costs being borne by AMS. AMS is a subsidiary of the Group and a Group services company and makes no recharge to the Company for such costs. The aforementioned individuals provide services to the Group and a number of its subsidiaries including the Company and it is not possible to make an accurate apportionment of an individual's remuneration in respect of their role as Director of the Company. Accordingly, no remuneration is being disclosed for such individuals.

19 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 AMS. Other services supplied pursuant to legislation were £nil (2022: £nil).

	2023 **£ 000**	**2022** **£ 000**
Fees payable to the Company’s auditors and its associates	125	43

20 SUBSEQUENT EVENTS

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