Company registration number 00423930

FAIRMEAD INSURANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

2021

for the year ended 31 December

Fairmead Insurance Limited
Contents

Registered office

57 Ladymead, Guildford
Surrey GU1 1DB

Registered in England and Wales No. 00423930

Fairmead Insurance Limited

Strategic Report

For the year ended 31 December 2021

The Directors present their Strategic Report for the year ended 31 December 2021.

Principal activities

Fairmead Insurance Limited (the 'Company') is a private limited insurance company authorised in the UK by the Prudential Regulation Authority ('PRA'), and regulated by the Financial Conduct Authority ('FCA') and the PRA. The principal activity of the Company is the transaction of general insurance business in the personal sector marketplace, specifically relating to risk covers for household, short term income protection and pet insurance.

The Company was acquired by Allianz Holdings plc on 31 December 2019, and ownership was subsequently transferred to a subsidiary of Allianz Holdings plc, Liverpool Victoria General Insurance Group ('LVGIG') in 2020. The Company is part of the wider Allianz Holdings plc group ('Group') of companies, whose ultimate parent company is Allianz Societas Europaea ('Allianz SE').

Transition from International Financial Reporting Standards ('IFRS') to United Kingdom Generally Accepted Accounting Practices ('UK GAAP')

The Board of Directors (the 'Board') have approved the transition from the IFRS accounting framework to UK GAAP. This reflects an anticipated reduction in business transactions and written premiums for the Company following the migration of policies to LVGIG and Allianz Insurance plc, reduced new policies written and existing businesses in run off.

The transition is effective 1 January 2020 and the impact of the transition from IFRS to UK GAAP is further explained in note 1.

Business review

Overview

Gross Written Premium ('GWP') for the year was £310,199k (2020: £405,071k), a 23% decrease, mainly due to the migration of policies to LVGIG and Allianz Insurance plc, and the sale of the Accident, Sickness and Unemployment ('ASU') book.

The loss after taxation for the year is £9,787k (2020: £43,747k restated loss), a £33,960k improvement due to significant savings across the business in regular and project spend as the migration started. The Company's gross loss ratio improved from 65% to 50%, benefitting from Covid-19 lockdown measures keeping attritional loss ratios lower from more people at home, along with benign weather during the year resulting in reduced subsidence claims.

The Company has successfully commenced the migration of Broker, Pet and Direct businesses to LVGIG and Allianz Insurance plc. The Company no longer offers the sale of new business polices for pet and ASU products and household products in the Direct and Broker channels.

In August 2021, the Company transferred its ASU book in two parts, one to the co-insurance provider and the other to a third party. The claims handling for the Company's ASU book in run-off has been delegated to Wessex Business Services Limited, trading as Wessex Insurance Services ('Wessex').

Covid-19

The Covid-19 pandemic has an on-going impact on the business from an operational perspective. Throughout the pandemic, the Company has continued to provide critical services to customers and maximised its remote working capabilities allowing a majority of operations to be carried out remotely. The impact on employees has also been a high priority focus area. This has resulted in the review of the Company's People Policies as the pandemic developed and measures have been put in place to protect employees' safety and wellbeing.

There has been an estimated benefit of £4m to Household insurance claims as a result of Covid-19 compared to normal experience. An increase in time that customers have spent at home has driven a reduction in incidences of theft and other perils such as fire and escape of water, reducing the average cost of those claims.

Return to office

The Company continues to review and align with Group health and safety measures to ensure employees feel comfortable to return to the office in accordance with government guidance.

Fairmead Insurance Limited
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Reinsurance
A new catastrophe treaty came into effect from 1 January 2021 to 31 December 2021. This was a joint treaty and covered the whole of LVGIG. This treaty provided protection to Liverpool Victoria Insurance Company Ltd ('LVIC'), Highway Insurance Company Ltd ('HICO') and the Company. Under this treaty all catastrophe losses in LVGIG are combined and ceded to the treaty. Prior to the joint treaty all previous catastrophe treaties covered the Company only. The joint catastrophe treaty has been renewed for the 2022 calendar year.

The Company continued to have a quota share reinsurance arrangement in place during the year. During the year the quota share ceded 50% of premiums and claims and the Company received a contribution of 31.5% (2020: 36.0%) of ceded earned premiums against incurred expenses and commission with an Allianz SE group reinsurance company. The quota share has the benefit of improving the Company's solvency position by reducing the capital the Company is required to hold. There has been a change to the 50% quota share from 1 January 2022 whereby under the new contract the Company has not transferred any consideration in return for the reinsurer assuming the element of ceded reserves passed to them under the quota share arrangement ("Funds Withheld"). Previously, the Company had transferred consideration ("Funds Transferred").

Integration of operations
The Company has and will continue to place an emphasis on the integration of the Company's business operations into the wider LVGIG and Allianz Holdings plc group. During the year, the Company has been migrating the Broker, Pet and part of the Direct household books. Policies in the Introducer channel will begin to migrate to LVGIG in 2022 and so, with the exception of a specific contract with a Managing General Agent ('MGA'), all product lines are expected to be in run off by the second quarter of 2022. Access to data and the archiving and decommissioning of systems in the transition away from the current platforms provided by the Legal & General group through an outsourcing arrangement are a primary focus in 2022.

Investment Strategy
The investment strategy of the Company has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. The Company invests in assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of its insurance liabilities.

Result for the year and dividend
The results of the Company show a pre-taxation loss of £14,041k (2020: £53,304k restated), details of which are set out on page 19.

The Directors do not recommend a dividend payment relating to the financial year 2021 (2020: £nil). No interim dividends were paid during the year.

Financial key performance indicators
In addition to the pre-taxation performance noted above, other key financial measures monitored by the Board include GWP as it reflects on the company's ability to attract new and retain existing customers; whilst the Combined Operating Ratio ('COR') reflects the profitability of the policies. These key performance indicators are as follows:

	2021	2020 (Restated note 1)	Commentary
Year end shareholders funds (£`000)	145,233	157,324	The decrease in shareholders funds is due to losses in the year.
Gross written premium (£`000)	310,199	405,071	The reduction is in line with the migration of Broker, Pet and Direct businesses and ceasing the sale of ASU policies in August 2021. The Household book continues to write premiums through the MGA and Introducer channels.
Combined operating ratio ('COR')	113%	132%	COR improved in 2021 due to favourable weather in comparison to previous years, reduced attritional claims partially as a result of the Covid-19 pandemic and cost savings as focus shifted to the migration of the book.

The COR is defined as:

$$\frac{\text{Total Expenses (excluding impairments, finance costs, investment management expenses and interest receivable)}}{\text{Net Premiums Earned}}$$

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

Other key performance indicators
The Board also monitor a number of non-financial key performance measures, including:

	2021	2020	Commentary
Gross inforce policies	1,190,844	1,799,392	The decrease is in line with the migration of business.
Average monthly reportable complaints (% of inforce policies)	0.062%	0.082%	The decrease is due to improvements in service driven primarily by systems thinking and stabilisation of service performance. This has also led to improvements in the speed of resolution of complaints raised.

Principal risks and uncertainties
The Company's business involves the acceptance and management of insurance, market, credit, liquiditiy and operational risks. The process is managed through a risk framework, comprising formal committees, risk assessment processes and review functions with formal updates to the Board. A full review of the wider risk environment and risk management process is discussed in note 33.

Weather Catastrophe Events
Weather related events are the largest area of risk faced by an insurer writing household business. The risk of adverse claims experience is fully assessed and reflected in the Company's capital requirement, and reinsurance is in place providing cover up to at least a 1 in 500 year event. However, a severe storm, flood or series of weather events (including prolonged dry weather leading to subsidence) would adversely impact the profitability of the business. If the event was coupled with the default of a reinsurer this could significantly impact the capital available to the Company. Management consider the risk of a default by a key reinsurer to be remote.

Climate Change
Risk associated with climate change is of increasing importance to regulators, Group and the general public. The Company's insurance risks and asset portfolio have relatively short durations so the Company's exposure is limited. The increase in the frequency and severity of extreme weather events will be the main risk the Company is exposed to from climate change as a result of its exposure to household lines of business, and is mitigated through the purchase of reinsurance. With the migration of all business, apart from the MGA business that is fully reinsured, any future exposure is limited.

Market and Economic Conditions
2021 experienced above average claims inflation. Whilst the Company has allowed for this in its reserves and is only trading through the MGA and Introducer channels, further increases in the cost of building materials above expected levels could have a material impact on future claims costs.

The Company is exposed to the impact of adverse economic conditions on its investment portfolio. During the year, the Company's investment portfolio consisted of Government, Corporate and Covered bonds and so the Company's material exposures are to interest rate and credit spread movements. The Company's investment strategy is approved at the Group Finance and Investment Committee ('FICo') on which the Company's Chief Financial Officer ('CFO') is a standing attendee to ensure that the Company's investments are consistent with the market risk appetite. Adherence with the investment strategy and the market risk appetite is monitored through monthly reporting of risk metrics. The Company's portfolio produced negative returns during 2021 due to the increase in interest rates driving market prices down.

The Company has reviewed and considered the impact of the Covid-19 pandemic on the Company's resources and concluded that it does not pose a material threat. The emerging impact of the ongoing conflict in Ukraine is considered in the Directors' report on page 10.

People
The Company, as part of the Group, actively focuses on retaining the best personnel and ensuring that key dependencies do not arise through employee training and development programmes, remuneration strategies, and succession planning. However, the loss of key personnel may impact earnings in the short term. The migration of the business will result in a number of the staff who supported the Company's operations transferring to support the wider LVGIG and Group businesses, whereas others are at risk of redundancy. The Group is supporting individuals at risk of redundancy with outplacement support and redeployment opportunities.

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

Regulation and Legislation
There are a number of aspects to the way in which legislation and regulation impacts the Company's business:
- Government fiscal policy;
- Regulation of product design, marketing, sales and administration; and
- Solvency II and its impact on capital requirements and business risk management.

The Company's activities and strategies are always based upon prevailing legislation and regulation. However, significant changes in legislation, and differing interpretation and application of regulation over time, may have a detrimental effect on the Company's strategy and profitability. Additionally, there is an increasing volume of regulatory and legislative change impacting the financial services sector. The ongoing migration limits the impact of this.

Specifically, the FCA have introduced new regulation around renewal pricing practices for the general insurance market, effective from 1 January 2022. The Company commissioned an independent report by a third party on the state of the Company's readiness for the proposals. All pricing actions arising from this report have been completed, with remaining product governance actions due to be completed by the end of the first quarter of 2022.

Outsourcing and Key Supplier Risk
There are some core Company functions that are outsourced and a reliance on suppliers to satisfy buildings and contents claims. This involves the Company managing a number of customer related third party relationships. Despite the rigorous selection process including supplier financial evaluations and the preparation of contingency plans to maintain service levels, the financial failure of a third party or provision of inadequate service could impact the reputation and regulatory compliance of the Company. As part of the sale of the Company to the Group, the Company entered into a three year transitional services arrangement with a Legal & General Group company under which, certain services including IT infrastructure, support and maintenance for specified systems are provided. This relationship is subject to dedicated oversight and governance by both the Company and Legal & General Group to ensure that obligations are met on an ongoing basis and any issues are appropriately escalated and resolved.

Digital Risk
The Company is inherently exposed to digital risks. The Company is alive to cyber threats, in terms of protecting its customers' data, minimising damage to its reputation and potential for financial loss and is working closely with its business partners to proactively manage emerging threats and to ensure continued compliance with UK General Data Protection Regulation (GDPR) that was effective from 1 January 2021 and the subsequent adequacy decision adopted by the European Union for the UK on 28 June 2021. The Company encourages all employees to complete an online refresher training course with regards to Digital Risk annually.

Section 172(1) Companies Act 2006 ('the Act') Statement
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 consider, both individually and collectively, they have acted in a way that, 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 part of the wider Group and as such leverages the governance of the Group. As a result of the governance structure of the Group, of which the Company is a part, some strategic decisions are considered by the Board of the Group or its committees ('Group Board') to an appropriate extent for the Group as a whole. Certain Group stakeholders and their interests (such as employees, community and environment), which the Company's Directors are required to have regard to, are considered by and actions concerning them determined at a Group Board level.

As a wholly owned subsidiary of the Group and part of the LVGIG business and in line with the duty to promote the success of the Company for the benefit of its shareholder, the Company's Board must have regard to the overall strategy and direction of the Group and of LVGIG, which are complementary. This includes considering the impact on broader stakeholders of the Group when making decisions.

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

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

Section 172(1) Companies Act 2006 Statement (continued)
The Company's Board receives information from the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. Information is also presented, where relevant, regarding any impact on the Company or Group's reputation, impact on the environment or impact on the communities in which the Company or Group operates and other matters set out in section 172 of the Companies Act 2006.

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

The Board and individual directors engage with some stakeholders directly on specific issues which are relevant to the Company. However, due to the size of the Group and how it operates, stakeholder engagement more regularly takes place at an operational level. This allows the Group to be responsive to stakeholder needs. As described above, the Company's Board receives reports when making decisions and these reports include information about how stakeholder interests have been considered. This provides the Board with an overview of stakeholder interests when making decisions even where they have not engaged directly with those stakeholders themselves.

Shareholder
The Company has regard to the interests of its immediate shareholder, LVGIG, and LVGIG's shareholder. The Company's strategy is closely aligned to that of LVGIG, including the successful ongoing integration of the Company's business into the LVGIG business following the acquisition of the Company and its subsidiaries by the Group on 31 December 2019. The Board has engaged regularly with and worked closely with the LVGIG Board and the executive management team to ensure a successful integration and achieve the aligned strategy of the Group and the Company in respect of the Fairmead business.

Employees
The Company does not employ any staff. During the year, LVGIG and Allianz Management Services Limited ('AMSL') provided administration services and staff to the Company and to other companies within the Group. LVGIG and AMSL have a high level of resources and expertise which benefit the Company.

Engaged people are key to the success of the business and part of the strategy, not only do they create positive experiences for customers and colleagues but they help the Company thrive. Each year the Company invites its people to complete a confidential survey to provide feedback. It remains a key priority to ensure that employees are fully engaged as the Group continues to develop during 2022.

Various methods of employee engagement are used by the Group, such as town halls, staff newsletters, pulse surveys and the annual Allianz Engagement Survey ('AES'). The AES is a valuable employee feedback platform and an indicator of the Allianz SE group's corporate culture. Employee engagement is a high priority at Allianz SE as people are expected to perform with commitment and integrity delivering excellent outcomes for customers. The Allianz SE group monitors employee engagement and company culture through the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect. The slightly revised and more comprehensive Work Well Index plus covers aspects of the quality of the work environment, practices and opportunities. The Board ensures that the interests of the employees, and particularly those working on the business of the Company, are considered when taking decisions.

During the year, there were also additional methods of engagement and communication with the employees working within the Company's business, particularly in connection with the integration of the business with LVGIG. In addition, during the year, employees within the Company's business were able to access the LVGIG Heartbeat intranet, improving the means for engagement with these employees. The Company's Board continued to receive information regarding the impact of the integration and migration project on employees working within the business. The Board also received information on the impact of Covid-19 on employees, their working arrangements (including the return to work model) and their well-being during 2021. The Board was then able to factor employee considerations into their decision making.

In 2022, LVGIG received a silver award from Stonewall's Workplace Equality Index, for its commitment and efforts to become an LGBTQ+ employer. Stonewall is the world's second-largest LGBTQ+ charity.

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

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

Customers
Customer centricity is fundamental to the LVGIG business strategy "putting our people first and our customers at the heart of what we do". The Company's focus is on maintaining high levels of service to and supporting our customers.

A key method of engaging with customers across the business is the Top Down Net Promoter Score (TDNPS). The TDNPS is an important indicator that the Company's customer centric culture is embedded within the organisation. The Company asks its customers and those of its competitors for honest and anonymous feedback and then benchmark the results. During 2021 the Company's TDNPS was +11 (2020: +14). These results are shared with and monitored by the Company's Board so this information can be considered when making decisions.

In addition, on a day to day basis the Company's customer-facing people engage with and foster relationships with its customers directly. Direct and indirect feedback received from customers is collated and reviewed, together with other data such as complaints and number of complaints referred to and upheld by the Financial Ombudsman Service. This information is fed back to the Board for its consideration. During the year the Board received a detailed update regarding customer services across the Company, looking at the plans in place to improve stability and capacity of service. The actions arising from this resulted in improvements to complaints metrics reported in the year.

During 2020, the Group Board established a Customer and Conduct Committee which is responsible for overseeing customer conduct for the Group, including the Company. The Customer and Conduct Committee receives reports on a variety of matters including reports in respect of the Company, including customer dashboards and metrics which help the Board to understand the customer experience. The Customer and Conduct Committee has considered a number of topics and projects during the year, focusing on the customer impacts and journey and ensuring that customers are put first. This included regular reports on the customer impacts of the project to integrate the Company's business into LVGIG.

In addition, during 2021, the Group Board engaged an independent third party to undertake a review of culture across the Group, including how the culture supports the delivery of good customer outcomes. The Board reviewed the findings and actions were put in place to ensure the Board continues to receive relevant and useful information in relation to culture. A key focus is the development of a meaningful culture dashboard and scorecard to help the Group Board monitor culture, including metrics to measure customer outcomes.

Suppliers
In general, material supplier contracts in terms of materiality to the Group are considered by the Group Board and supplier relationships are managed either directly by procurement or by commercial teams within the business, depending on the size and significance of the contract to the Group.

During the year, the Company had continued engagement with its suppliers in connection with the acquisition of the Company by LVGIG and its integration into the LVGIG business. The integration has had and will continue to have an impact on a number of the Company's suppliers. Throughout the year the Company has engaged with its suppliers to ensure that the relationships were managed appropriately and to enable appropriate communication regarding the changes to the business and how they may affect individual suppliers. The Board previously agreed that transitional support of certain supplier contract management services would continue to be provided by Legal & General Group to allow an orderly migration of suppliers. The migration process around suppliers is ongoing and continues to be monitored by the Board.

Regulators
Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition, the Group Board carefully considers and takes into account any letters received by the Group from the regulators. The Board and senior management have had regular direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions that will then be brought into Board discussions. During 2021, there was a focus on business interruption policies sold via the MGA in addition to the progression of remediation activity. The FCA informed the Company in Q4 that they no longer require regular updates on remediation activity following the resolution of a number of matters.

The FCA have introduced new regulation around renewal pricing practices for the general insurance market, effective from 1 January 2022. The Company commissioned an independent report by a third party on the state of the Company's readiness for the proposals. All pricing actions arising from this report have been completed, with remaining product governance actions due to be completed by the end of the first quarter of 2022.

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

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

Regulators (continued)
The FCA are introducing new requirements on operational resilience to prevent, adapt and respond to, recover, and learn from operational disruption. From 31 March 2022, relevant firms must identify their important business services, set impact tolerances beyond which they recognise they could intolerably harm their customers, and carry out necessary mapping and testing to enable them to always operate within those impact tolerances, even during severe yet plausible events, from 31 March 2025. A Group programme is responsible for ensuring compliance readiness for all Group entities, including the Company, with due consideration being given to the migration. This programme of work is benefiting from second line oversight, broad stakeholder engagement and external consultancy health checks.

Community and the Environment
An Environmental, Social, Governance ('ESG') strategy ensures the Allianz SE group is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. The Allianz SE group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of its businesses. The Group has undertaken its own initiatives during the year in the area of ESG. The Group Board has also reviewed the ESG strategy, analysing the global Allianz strategy in relation to ESG and reviewing how that strategy is implemented in the UK. The LVGIG board also has its own complementary ESG strategy and activities such as the Green Heart Foundation, which supports local communities, and paper free working, which apply to the Company as an LVGIG subsidiary.

Board Decision-making
This part of the section 172 statement describes how the Board has had regard to the Company's stakeholders and other matters to be considered under section 172(1) of the Act in some of the key decisions taken by the Board during the year. The Group Board continues to review its processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact the Group's and individual subsidiaries key stakeholders groups. During 2021, this included rolling out new reporting templates across the Group, including to subsidiaries, to improve the quality of information received by the Board.

During the year the Directors took the following principal decisions:

1. **Sale of mortgage payment insurance and income protection insurance covering ASU business**

Section 172 considerations	Promoting the success of the Company for the benefit of the Company's members, long-term consequences, maintaining a reputation for high standards, fostering relationships with customers
Stakeholders	Shareholders, customers, regulators
Stakeholder consideration in the Board's decision making	In April and May 2021, the Board decided to transfer the Accident, Sickness and Unemployment ('ASU') book in relation to mortgage payment insurance and income protection insurance. The transfer was approved in two parts, covering two books. In deciding to approve the transfer of each book, the Board had regard to the strategy of the Company and the strategy of the immediate shareholder, which has been designed to ensure the long term success of the Company and the Group. Within this strategy ASU insurance product is not a strategic focus area. However, in exiting the product a key consideration for the Board was to ensure continuity of cover for customers. If the book was closed without renewals being offered then this could mean that customers would be left without cover to protect them at a time when this type of cover is needed most. Therefore, it was considered, having regard to customers that the ASU book would be sold. The Board also reviewed the terms of the sale, to ensure that they were in the best interests of the Company, taking into account the likely consequences in the long-term. For each transfer, the Board considered the information presented to them including legal information, risks and relevant stakeholder matters before approving the transaction.

Fairmead Insurance Limited
Strategic Report (continued)
For the year ended 31 December 2021

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

Board Decision-making (continued)

2. Continued Integration of the Company within LVGIG

Section 172 considerations	Interests of employees, fostering relationships with customers and suppliers, maintaining a reputation for high standards, likely consequences of any decision in the long-term
Stakeholders	Employees, customers
Stakeholder consideration in the Board's decision making	The integration of the Company (acquired on 31 December 2019) continued to be an important strategic project for the Company and the Board during 2021. The project continues to be an important part of the long-term strategy and diversification of the Group, and as such the Board has considered the long-term consequences and impact on various stakeholders, including employees, suppliers and customers of decisions made in this long-term project. During 2021, the Board received regular updates on strategy and progress of the migration project overall, which includes the impacts on employees, suppliers and customers. Specific metrics on the migration were regularly reviewed by the Company's Board to understand potential impacts and how these were being managed. For example, for customers and suppliers the TDNPS data is tracked on an ongoing basis as well as service and claims performance. For employees a quarterly update from HR on people aspects of the project is reviewed and discussed, including planned and unplanned leavers and the people risks of the migration project. The Group Board and its committees also regularly review the migration project from a Group perspective.

By Order of the Board

K. Wenzel
Director
22 April 2022

Fairmead Insurance Limited
Directors' Report
For the year ended 31 December 2021

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2021.

Result for the year and dividend
The results of the Company show a pre-taxation loss of £14,041k (2020: £53,304k restated), details of which are set out on page 19. The Directors do not recommend a dividend payment relating to the financial year 2021 (2020: £nil). No interim dividends were paid during the year.

Future developments
The Company continues the migration and full integration of its business operations into the wider LVGIG and Group businesses. The primary focus is to ensure a smooth transition and minimum disruption to the customer.

New regulations from the FCA on pricing practices relating to the renewal of general insurance policies came into effect on 1 January 2022. The Company commissioned an independent report by a third party on the state of the Company's readiness for the proposals. All pricing actions arising from this report have been completed, with remaining product governance actions due to be completed by the end of the first quarter of 2022.

Going concern
The Company has approved plans for the migration of its books of business. The Introducer channel has begun to migrate to LVGIG in 2022 and so with the exception of a specific contract with a Managing General Agent ('MGA'), it is anticipated that all product lines will be fully in run off by the second quarter of 2022. The Directors are currently reviewing the future plans for the Company.

The Company does have adequate resources to continue operating for the foreseeable future and it will continue to meet its liabilities as they fall due. The impact of the Covid-19 pandemic on the Company has been set out in the Strategic Report on page 2. The impact of the pandemic and wider economic consequences have been considered in our Solvency and liquidity projections underpinning the conclusion that the entity continues to be a going concern.

The storms in 2022 have not been materially above typical winter weather related claims incidence.

Following the Russian military invasion of Ukraine on 24 February 2022, the on-going conflict is a new source of uncertainty for the Company in 2022. Management have reviewed the risks to the Company, considering investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

The Company's investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate bonds have declined due to rising spreads. As at 28 March 2022, Fairmead, has unrealised losses of £1.7m (net of tax). However, none of the investments held by Fairmead relate to Russian or Ukrainian entities and are of short duration so management do not consider that there will be a material sustained impact on the business.

The wider macro-economic impacts including those arising from sanctions include further upward pressure on inflation, particularly driven by rising energy costs, increasing the pressure on customers and increasing the cost of the Company's claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber attacks targeted at the UK, resulting in disruption to national infrastructure or third party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our Crisis Management framework.

Management are taking particular care with our people, ensuring that communications are focussed on wellbeing and providing additional support to colleagues who are personally impacted by the conflict.

These financial statements are prepared on a going concern basis.

Financial Risk Management
The Company's exposure to financial risk through its financial assets and liabilities is provided in the Strategic Report and in note 33 of the financial statements.

Political Donations
The Company made no political donations and incurred no political expenditure during the year.

Fairmead Insurance Limited
Directors' Report (continued)
For the year ended 31 December 2021

Directorate
The Directors of the Company who were in office during the year and up to the date of signing the financial statements are shown below:
S. Treloar
M. Crane
K. P. Wenzel (appointed 19 April 2021)
M. S. Blackburn (appinted 20 January 2022)
C. J. Wren-Kirkham (resigned 30 April 2021)
J. Cowell (resigned 12 November 2021)

Company Secretary
C. M. Twemlow (appointed 1 February 2021)
R. C. Jack-Kee (resigned 1 February 2021)

Modern Slavery Statement
The Group recognises its obligation to ensure that its business and supporting supply chains are slavery free.

The Group's full modern slavery statement can be found at www.allianz.co.uk.

The Company's modern slavery statement has been approved by the Board.

Directors' Insurance
The ultimate parent Company, Allianz SE, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Independent Auditors
In 2020, BDO LLP were appointed as the Company's external auditors. There is no requirement under the Companies Act or the Company's Articles of Association to hold an Annual General Meeting or lay the Company's Report and Financial Statements before the shareholders. The Company has elected to dispense with the need to appoint auditors annually, and BDO LLP will therefore continue in office.

Streamlined Energy and Carbon Reporting (SECR)
The Company has taken an exemption from SECR in these financial statements as it fulfills the criteria for taking advantage of the exemption as provided by "The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018".

This is on the basis that LVGIG has reported and disclosed the requirements of the SECR in their Financial Statements, including the relevant data for the Company. LVGIG's financial statements can be found at www.lv.com.

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 elected to prepare the financial statements in accordance with UK accounting standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" and Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- state whether applicable UK 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.

Fairmead Insurance Limited
Directors' Report (continued)
For the year ended 31 December 2021

Statement of directors' responsibilities in respect of the financial statements (continued)
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the Auditor
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.

By Order of the Board

K. P. Wenzel
Director
22 April 2022

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited
For the year ended 31 December 2021

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Fairmead Insurance Limited (the 'Company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board on 18 March 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2020 to 31 December 2021.

We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

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.

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

- We have obtained the Directors' assessment covering key factors such as adequate resources, sustainable business model and liquidity requirements to 30 June 2023. We performed arithmetical accuracy of the underlying models and reviewed cash flow and solvency forecasts. We assessed the appropriateness of the key assumptions used in the going concern assessment by performing sensitivity analysis on those assumptions and reviewing supporting documentation.
- We reviewed and challenged the Company's current business plans, including the plans to migrate and renew insurance business to other group companies and assessed the impact of migration on going concern assumption.
- We read the Group sustainability report to identify any matters included therein that could have a material impact on the ability of the company to continue as a going concern.
- We inspected the latest post year end management accounts to determine if there were any significant matters which could affect the going concern of the entity; and
- We reviewed the basis of solvency projections for the next 12 months and ensuring that an appropriate mechanism for calculating solvency had been applied.

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 entity'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.

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

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited (continued)
For the year ended 31 December 2021

Overview

Key Audit Matter	**Valuation of claims outstanding**	**2021**	**2020**
		✔	✔
Materiality	Company financial statements as a whole £4,653k (2020: £4,900m) based on 1.5% (2020: 1.25%) of gross written premium		

An overview of the scope of the audit
Our audit was scoped by obtaining an understanding of Company and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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. This matter 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 this matter.

Key Audit Matter		**How the scope of our audit addressed the key audit matter**
Valuation of Technical Reserves Refer to Note 1c, (accounting policy), Note 32 (Critical accounting estimates and judgements), Note 19 and 22 (financial disclosures) and Note 33 (sensitivity analysis)	The Company recorded technical reserves of £159,582k (2020: £193,038k). Valuation of technical reserves is a key area of estimation within the financial statements, which requires the application of significant judgements and assumptions and is therefore considered to be a key audit matter. Technical reserves can be further sub-divided into short tail claims and subsidence & other long tail claims. Modelling for the valuation of technical provision is reliant on: • Accuracy and completeness of relevant claims data being input correctly into actuarial models; and • The application of appropriate actuarial methodologies, judgements and assumptions	Short tail claims - Management used a paid Development Factor Model ("DFM") to project technical reserves for short tail claims. Further, for the current financial year, technical reserves have been projected at an aggregate level rather than at peril level. The audit team performed testing on a sample of claims paid (this data used in the actuarial projections) by agreeing payment to supporting documentation for accuracy and reconciled the claims listing to the nominal ledger for completeness. BDO's Actuarial team was engaged as an auditor's expert to assess the methodology, significant judgements and assumptions applied by the Company's in-house actuarial team. In particular BDO's actuarial team: • For short tail line of business, BDO reviewed the FIL actuaries team analysis of change in methodologies to ensure that change of methodology was in accordance with UK GAAP and supported by assumptions and analysis which showed that the impact of change of technical provisions was immaterial. • Conducted independent projections of reserves using claims paid development triangles and compared these with the Company's claims reserves provisions and investigated significant differences. • Reviewed the Company's actuarial report in conjunction with their own projections and considered the reasonableness of different patterns and ratios applied to particular short tail business, including comparison of differences noted. Subsidence and other long tail claims - Management used incurred DFM to project the technical reserves for subsidence and other long tailed claims. The Company's actuarial team also carried out an analysis that projected a range of reasonable ultimate claims based on a claims paid DFM. • As an independent alternative validation of the Company's subsidence and OLT reserves held, BDO's actuarial team conducted reprojections of claims reserves using claims paid development triangles and compared these with the Company's claims reserves that were based on incurred claims. Any significant differences in results were investigated. • BDO's actuarial team compared their independent projections with the Company's analysis based on claims paid DFM and investigated material differences. • BDO's actuarial team also used other methods such as benchmarking loss ratios against industry data to consider whether loss ratios for subsidence reserves were in line with loss ratios seen elsewhere.

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited (continued)
For the year ended 31 December 2021

Key audit matters (continued)

Key Audit Matter	How the scope of our audit addressed the key audit matter
Valuation of Technical Reserves (continued)	Subsidence and other long tail claims (continued) - • BDO's actuarial team reviewed the Company's actuarial report in conjunction with their own projections and considered the reasonableness assumptions such as inflation, the impact of Covid 19, weather, the impact of trends in fees and recoveries and of different patterns and ratios applied to particular lines of business, including comparison of differences noted. • The audit team tested a sample of claims paid by agreeing payments to supporting documentation and reconciling the claims listing to the nominal ledger.
	Key observations: Based on the audit work performed we consider the assumptions and judgements applied in the valuation of the technical reserves were reasonable.

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Financial Statements	
	2021 (£'000)	2020 (£'000)
Materiality	4,653	4,900
Basis for determining materiality	1.5% of Gross Written Premium	1.25% of Gross Written Premium
Rationale for the benchmark applied	Gross written premium is considered the primary financial measure monitored by key stakeholders and provides a stable measure year on year to reflect the performance of the Company. 1.5% of Gross written premium is selected as benchmark as company is in run off stage during the year.	
Performance materiality	3,024	3,185
Basis for determining performance materiality	65% of Materiality	65% of Materiality
Basis for determining performance materiality	65% was reflective of our perceived risk of the financial statements containing misstatements, after considering previous experience of this audit engagement we consider this level appropriate.	

Specific materiality
The Company has in place a significant amount of quota share reinsurance in the year ended 31 December 2021, similar to last year, including a 50% overarching quota share agreement. These arrangements have the effect of transferring insurance premium and claims technical provisions to reinsurers. Due to the extent of these arrangements we felt it was appropriate to set a level of materiality for the financial statements as a whole to determine the extent of audit procedures to be applied over gross premiums and claims before these reinsurance arrangements. A lower, specific, level of materiality has been set for transactions and balances not affected by quota share reinsurance. Specific materiality was based on net assets, as the key performance indicator for stakeholders is the economic stability and solvency of the Company, thus net assets in an appropriate determinant. Our specific materiality of £3,000k (2020: £3,000k) represents 2% (2020: 2%) of net assets. We further applied a performance level materiality of 65% (2020: 65%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited (continued)
For the year ended 31 December 2021

Reporting threshold
We agreed with the Audit Committee that we would report to them to them all individual audit differences in excess of £232k (2020: £172k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting
Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • 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 • the financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

Auditor's 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 auditor's 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.

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited (continued)
For the year ended 31 December 2021

Auditor's responsibilities for the audit of the financial statements (continued)

Extent to which the audit was capable of detecting irregularities, including fraud

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatements due to fraud, we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and management as to whether they have knowledge of any actual, suspected or alleged fraud.
- Inspecting Board and Audit Committee minutes.
- Using analytical procedures to identify an unusual or unexpected relationships.

We communicated identified fraud risks to the audit team and remained alert to any indications for fraud throughout the audit. These were revenue recognition, technical provisions and management override of controls, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We obtained assurance over revenue recognition by obtaining policy schedules and on sample basis tested the premium by checking back to underlying supporting documents.

Our work in respect of valuation of technical provision is set out in the key audit matters section of this report.

We also responded to the risk of management override of controls by identifying any unusual journal entries based on characteristics of journal posting date and description and testing these by reviewing the supporting documents.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations to our team and remained alert to any indications of non-compliance throughout the audit.

Legal and regulatory frameworks determined most significant are:

- Companies Act 2006.
- Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland.
- The General Data Protection Regulations (GDPR).

Non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We performed procedures including:

- Obtaining an understanding of the legal and regulatory framework applicable to the Company's operations;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Inspecting correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA);
- Enquiring of the Directors and other management of instances of non-compliance; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditor's report.

Fairmead Insurance Limited
Independent auditor's report to the members of Fairmead Insurance Limited (continued)
For the year ended 31 December 2021

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Alex Barnes
0FD4E1FFA52549F...

Alexander Barnes
Senior Statutory Auditor

For and on behalf of
BDO LLP
Statutory Auditor
London, UK
22 April 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Fairmead Insurance Limited
Statement of Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000 Restated (note 1)
Technical account			
Earned premiums, net of reinsurance			
Gross written premiums		310,199	405,071
Outward reinsurance premiums		(221,040)	(346,935)
Net change in provision for unearned premiums		32,399	79,638
Net premiums earned		121,558	137,774
Interest receivable and similar income	4.	34	2,549
Total technical income		121,592	140,323
Claims incurred, net of reinsurance			
Gross claims and change in insurance liabilities		197,427	284,963
Reinsurers' share		(130,116)	(192,232)
Claims incurred, net of reinsurance	5.	67,311	92,731
Acquisition costs	6.	107,970	120,735
Other expenses	9.	62,181	100,222
Reinsurance commission and expenses	10.	(100,208)	(118,381)
Total operating expenses		69,943	102,576
Total technical charges		137,254	195,307
Balance on Technical Account		(15,662)	(54,984)
Non-technical account			
Balance on technical account		(15,662)	(54,984)
Investment income	3.	1,621	1,680
Loss before taxation	2.	(14,041)	(53,304)
Total tax credit	11.	4,254	9,557
Loss after taxation for the year		(9,787)	(43,747)
Other comprehensive income			
Items that may be classified to profit and loss			
Change in value of available-for-sale financial assets		(2,623)	2,062
Change in value of available-for-sale financial assets transferred to profit and loss		(256)	356
Income tax on these items		575	(459)
Other comprehensive (loss) / income for the year	29.	(2,304)	1,959
Total comprehensive loss for the year		(12,091)	(41,788)

All activities of the Company are classified as continuing.

The loss after taxation for the year and total comprehensive loss is entirely attributable to the equity holders of the Company.

The notes on pages 23 to 48 form an integral part of the financial statements.

Fairmead Insurance Limited
Statement of Financial Position
As at 31 December 2021

	Notes	2021 £'000	2020 £'000 Restated (note 1)
Assets			
Intangible assets	14.	-	-
Investments: other financial investments	18.	112,331	172,401
Reinsurers' share of technical provisions	19.	234,220	275,487
Debtors			
Receivables arising out of direct insurance operations - policyholders	20.	71,842	93,845
Receivables arising out of direct insurance operations - intermediaries	20.	35,619	42,817
Other debtors	20.	68,599	28,032
Total debtors		176,060	164,694
Other assets			
Tangible assets	15.	-	-
Deferred tax asset	13.	5,958	3,368
Income tax asset	12.	2,015	6,142
Cash at bank and in hand	21.	13,401	13,460
Total other assets		21,374	22,970
Prepayments and accrued income			
Deferred acquisition costs	17.	41,661	57,499
Total assets		585,646	693,051
Liabilities			
Capital and reserves			
Share capital	27.	37,000	37,000
Share premium		96,053	96,053
Retained earnings	28.	12,525	22,312
Available-for-sale reserve	29.	(345)	1,959
Total equity		145,233	157,324
Gross technical provisions	19.	322,084	409,605
Provisions	23.	-	4,692
Trade payables	24.	43,325	31,270
Other payables and financial liabilities	25.	75,004	90,160
Total liabilities		440,413	535,727
Total equity and liabilities		585,646	693,051

The notes on pages 23 to 48 form an integral part of the financial statements.

The financial statements on pages 19 to 48 were approved by the Board of Directors on 22 April 2022 and were signed on their behalf by:

M. Crane
Director

K. P. Wenzel
Director

Company Registration Number: 00423930.

Fairmead Insurance Limited
Statement of Changes in Equity
For the year ended 31 December 2021

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Available-for-sale reserve £'000	Total £'000
Balance at 1 January 2020	37,000	96,053	65,989	-	199,042
Conversion to FRS 102	-	-	70	-	70
Balance at 1 January 2020 (Restated note 1)	37,000	96,053	66,059	-	199,112
Loss after taxation for the year (Restated note 1)	-	-	(43,747)	-	(43,747)
Other comprehensive income for the year	-	-	-	1,959	1,959
Total comprehensive (loss) / income for the year (Restated note 1)	**-**	**-**	**(43,747)**	**1,959**	**(41,788)**
Balance at 31 December 2020 (Restated note 1)	**37,000**	**96,053**	**22,312**	**1,959**	**157,324**

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Available-for-sale reserve £'000	Total £'000
Balance at 1 January 2021 (Restated note 1)	37,000	96,053	22,312	1,959	157,324
Capital investment during the year	-	-	-		-
Loss after taxation for the year	-	-	(9,787)	-	(9,787)
Other comprehensive loss for the year	-	-	-	(2,304)	(2,304)
Total comprehensive loss for the year	**-**	**-**	**(9,787)**	**(2,304)**	**(12,091)**
Balance at 31 December 2021	**37,000**	**96,053**	**12,525**	**(345)**	**145,233**

The notes on pages 23 to 48 form an integral part of the financial statements.

Fairmead Insurance Limited
Statements of Cash Flows
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000 Restated (note 1)
Cash flows from operating activities			
Loss before taxation		(14,041)	(53,304)
Adjustments for:			
Depreciation, amortisation and impairment		-	16,940
Net realised (gains)/loss on financial instruments	3.	(256)	356
Dividend and interest income	3.	(1,365)	(2,036)
Changes in operating assets and liabilities:			
Net (decrease)/increase in technical provisions		(87,521)	19,514
Net decrease/(increase) in reinsurers' share of technical provisions		41,267	(194,733)
Net decrease in deferred acquisition costs		15,838	7,182
Net (increase)/decrease in debtors		(11,366)	33,193
Net decrease in operational liabilities		(3,101)	(20,128)
Net decrease in provisions		(4,692)	(5,731)
Net decrease in financial investments		57,032	199,085
Lease capital repayments		-	(112)
Cash (outflow)/inflow generated by operating activites		**(8,205)**	**226**
Interest received		1,779	433
Tax recovered		6,367	-
Net cash (outflow)/inflow from operating activities		**(59)**	**659**
Net (decrease)/increase in cash or cash equivalents		(59)	659
Cash and cash equivalents at the beginning of the year		13,460	12,801
Cash and cash equivalents at the end of the year		**13,401**	**13,460**

The notes on pages 23 to 48 form an integral part of the financial statements.

The Company's statement of cash flows includes all cash and cash equivalent flows, including those relating to the UK policyholders.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Accounting Policies

a) Basis of Preparation

In prior years, the financial statements were presented under International Financial Reporting Standards ('IFRS'), in conformity with the requirements of the Companies Act 2006 ('Act'). During the year, and in consideration of the Company's plans for the migration of its blocks of business, the Directors of the Company approved the adoption of United Kingdom Generally Accepted Accounting Practise (UK GAAP), including FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'. The transition from the IFRS accounting framework to UK GAAP is effective as of 1 January 2020, being the beginning of the earliest period for which the Company presents full comparative information in accordance with UK GAAP in its first financial statements that comply with UK GAAP. As a result, the statutory format of the financial statements for the year ended 2021 has been changed to adopt the Schedule 3 format, rather than the IFRS framework format, which was adopted in the prior year financial statements 31 December 2020, with comparative information being restated in the new format where necessary.

The financial statements have been prepared under the UK GAAP, including FRS 102 and FRS 103, the Companies Act and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. The financial statements have been prepared under the historical cost convention on a going concern basis, as modified by the adoption of FRS 102 and FRS 103 on 1 January 2020. Accounting policies have been applied consistently to all years presented.

The Company is exempt from preparing consolidated financial statements by virtue of the Act, as its ultimate parent Company prepares publicly available consolidated financial statements that are deemed to satisfy the equivalence requirement of section 401 of the Act. The Company is domiciled in the United Kingdom.

Transition from International Financial Reporting Standards ('IFRS') to UK GAAP

The Company has reviewed the financial impacts of transitioning from IFRS to FRS 102 and noted the following changes in accounting policies.

(i) IFRS 16 Leases
The main financial impact of transitioning to FRS 102 is to reverse the adoption of IFRS 16 Leases in prior year comparatives.

Under IFRS 16, leases had been recognised as a right-of-use ('ROU') asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date. However, under FRS 102, leases of property are classified as either finance leases or operating leases. The Company has recognised the existing lease as an operating lease.

In the 2020 restated Statement of Comprehensive Income ('SOCI'), there is a reversal of depreciation of £858k, interest expenses of £70k, charge of office building rental expenses of £562k and tax impact of £70k with a total credit of £296k to the Statement of Comprehensive Income and the Statement of Changes in Equity ('SOCE').

In the 2020 restated Statement of Financial Position ('SOFP'), ROU Asset and Liability has been eliminated.

In the 2020 restated Statement of Cash Flows, the reversal of IFRS 16 has impacted depreciation by £858k, interest paid by £70k and the lease payment of £112k. There is no net impact on the cash outflow generated by the operation or decrease in cash and cash equivalents reported in the prior year.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Accounting Policies (continued)

a) Basis of Preparation (continued)

Reconciliation of profit and loss

	At 31 Dec 2020 £'000	At 31 Dec 2019 £'000
Loss before taxation (as previously stated)	(53,670)	(57,189)
Reversal of ROU depreciation	858	933
Reversal of ROU interest expenses	70	218
Lease payments	(562)	(1,081)
Restated loss before taxation reported under FRS 102	(53,304)	(57,119)

Reconciliation of equity

	At 31 Dec 2020 £'000	At 31 Dec 2019 £'000
Retained earnings (as previously stated)	21,945	65,989
Derecognition of ROU	452	86
Tax impact	(85)	(16)
Capital and reserves reported under FRS 102	22,312	66,059

Going concern

The Company has approved plans for migration of its books of business, and therefore, with the exception of a specific contract with a Managing General Agent ('MGA'), all product lines are in run off. The Directors are currently reviewing the future plans for the Company.

The Company does have adequate resources to continue operating for the foreseeable future and it will continue to meet its liabilities as they fall due. Management have prepared and reviewed capital and liquidity forecasts at least until 30 June 2023 as part of these considerations. The impact of the Covid-19 pandemic on the Company has been set out in the Strategic Report on page 2. The impact of the pandemic and wider economic consequences have been considered in the solvency and liquidity projections underpinning the conclusion that the entity continues to be a going concern.

The conflict in the Ukraine has not had a direct effect although management are closely monitoring the impact on the financial markets and the supply and price of materials. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber attacks targeted at the UK. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our Crisis Management framework.

The storms in 2022 have not been materially above typical winter weather related claims incidence.

These financial statements are prepared on a going concern basis. For more information on the going concern assessment please refer to the Directors' Report on page 10.

b) Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the estimation of incurred but not reported ('IBNR') estimates within insurance contract liabilities. The basis of accounting for these liabilities is set out in (c) below and the significant judgements used in determining the estimate are outlined in note 33

c) General Insurance

The results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting and appropriate information regarding its claims exposures. The Company takes all reasonable steps to ensure that is has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Accounting Policies (continued)

c) General Insurance (continued)

Premiums are accounted for in the period in which the risk commences as gross written premium. Estimates are included for premiums not notified by the year end. For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown net of Insurance Premium Tax ('IPT') and before deduction of commission. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position, calculated on a time-apportioned basis. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition costs ('DAC') or, with regard to reinsurance outwards, as deferred income. Acquisition costs are deferred over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

Claims incurred comprises claims and related expenses paid in the year and changes in the provisions for outstanding claims. This includes provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Provision is made at the statement of financial position date for the estimated cost of claims and related insurance recoveries incurred but not settled at that date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these reserves. In calculating the estimated cost of IBNR and notified unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

An additional unexpired risk provision should be recognised if the sum of expected claim costs and claim adjustment expenses, deferred acquisition costs, and associated administrative costs exceeds related unearned premiums and anticipated investment income. Any required unexpired risk provision will be recognised within Gross insurance contract liabilities.

d) Reinsurance

A quota share treaty is in force that cedes 50% of all business to Allianz Re Dublin Designated Activity Company ('Allianz Re'), meaning 50% of all premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims being recovered from the reinsurer. This quota share cover acts after a 100% quota share treaty acting on business from MGA. The Company cedes insurance premiums and risk through these quota shares to limit the potential for losses and manage capital requirements of the business. Outward reinsurance premiums are recognised in the same accounting period as the related premiums for the direct or inward insurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses, loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the statement of financial position unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

To the extent that any gross unexpired risk provision is anticipated to be recovered under any outward reinsurance relationship, the anticipated recovery is recognised within Reinsurers' share of contract liabilities.

e) Investments in subsidiaries

Shares in subsidiary undertakings are stated at cost less impairment. The Company reviews the carrying value of its subsidiaries at each statement of financial position date where there has been an indication that impairment has occurred. If the carrying value of the subsidiary undertakings is impaired, the carrying value is reduced through a charge to the statement of comprehensive income.

1. **Accounting Policies (continued)**

f) Financial Investments
Investments are classified in the following categories: financial assets or financial liabilities, loans and other receivables and Available-For-Sale ('AFS') financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

g) Available for sale (AFS) financial assets
AFS investments include listed debt securities comprising Corporate Bonds and Government Bonds. AFS investments are those intended to be held for a indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates or prices.

AFS investments are initially recognised at fair value plus directly related transaction costs. They are subsequently carried at fair value. Interest calculated using the effective interest rate method is recognised in Statement of Comprehensive Income ('SOCI'). Other changes in the fair value of AFS financial assets are reporting in a separate component of shareholders' equity (AFS reserve) until disposal. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in SOCI within investment income.

h) Loans and other receivables
Loans and other receivables are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method. Other receivables are recognised when due.

An assessment is performed at each SOFP date whether there is any indication that is a loan or receivable, or a group of loans and receivables, is impaired. Where there is objective evidence that the carrying value is impaired then the impairments loss will be recognised in the SOCI.

i) Impairment of financial assets
The carrying values of financial assets not carried at Fair Value Through Profit & Loss ('FVTPL') are reviewed at each SOFP date. If the carrying value of trade receivables or loans and other receivables is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the SOCI.

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

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

j) Interest receivable and similar income
Interest receivable and similar income relates to instalment fee income on policyholder debt. Income is recognised through the income statement in the period to which it relates to on an effective interest rate ('EIR') basis. Instalment fee income receivable is recognised within Receivables arising out of direct insurance operations and deferred income within Other payables and financial liabilities.

k) Dividend recognition
Dividend distributions to the Company's shareholders are recognised as a liability in the year in which the dividends are authorised and are no longer at the discretion of the Company.

l) Insurance Receivables
Insurance Receivables are recognised in a manner consistent with the premium income recognition as detailed in the General Insurance accounting policy note 1 (c). The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the SOCI.

m) Trade and other payables
Trade and other payables are recognised as the Company becomes contractually obligated to make an outflow of resources. They are initially recognised at fair value and subsequently held at amortised cost.

Trade and other payables include accruals for levies which are recognised when the obligating event of authorisation to undertake specified business activities on dates prescribed in relevant legislation has occured.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Accounting Policies (continued)

n) Taxation

Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous years. Current tax is recognised in the SOCI unless it relates to items which are recognised in other comprehensive income.

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to other comprehensive income.

To calculate the current tax charge, the rate of tax used is 19% (2020: 19%), which is the rate of corporation tax applicable for the year. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

The rate of tax used for the calculation of deferred tax is the rate of corporation tax that is expected to apply when the differences reverse.

o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

p) Intangible Assets

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Company which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Such intangible assets are stated at cost less cumulative amortisation and impairment losses. Amortisation begins when the asset becomes available for operational use and is charged to the income statement within administrative expenses on a straight- line basis over the estimated useful life of the software, which was 10 years. However, following the acquisition of the Company, the asset has been fully written-down as at 31 December 2020.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

q) Plant and equipment

The initial cost of an item of plant or equipment is capitalised where it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost is then depreciated on a straight line basis over the item's estimated useful working life over 3 to 10 years.

The Company reviews the carrying value of plant and equipment at each SOFP date where there has been an indication that impairment has occurred. If the carrying value of an item of plant and equipment is impaired, the carrying value is reduced through a charge to the income statement.

r) Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

s) Share Premium

Share premium are proceeds received in excess of the nominal value of shares issued, net of any transaction costs.

t) Leases

Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made to lessors under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

u) Operating cash flows

Purchases and sales of financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance activities, net of payments of related claims.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Accounting Policies (continued)

v) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects some or all of a provision to be reimbursed it is recognised as a separate asset when the reimbursement is certain. Contingent liabilities are possible obligations whose existence will be confirmed by uncertain future events. The Company will not recognise a contingent liability in the SOFP, but will make disclosure unless the outflow of economic resources is remote.

2. Loss before taxation

	2021 £'000	2020 £'000 Restated (note 1)
Loss before taxation is stated after charging:		
Amortisation and impairment of intangible assets (note 14)	-	13,600
Depreciation and impairment of tangible assets (note 15)	-	3,340
Auditors' remuneration (see below for further analysis)	378	298

During the year fees (excluding VAT) were paid to the Company auditors for the following services:

	2021	2020
Audit services		
Audit of these financial statements	308	230
Non-audit services		
Fees payable to the Company auditors for other services:		
- Audit related assurance services - required by national or EU legislation	70	68
Total	378	298

Overrun costs amounting to £189k in respect of 2020 audit services were incurred by the Company in 2021.

Line of business analysis

For the year ended 31 December 2021

	Accident and health £'000	Fire and other damage to property £'000	Third party liability £'000	Miscellaneous £'000	Total £'000
Gross written premiums	3,132	274,158	7,390	25,519	310,199
Gross premiums earned	4,957	324,721	8,822	36,132	374,632
Interest receivable and similar income / (expense)	22	(21)	-	33	34
Total gross technical income	4,979	324,700	8,822	36,165	374,666
Gross claims incurred	(2,954)	(163,462)	(3,237)	(27,774)	(197,427)
Gross operating expenses	(2,246)	(152,139)	(4,016)	(11,750)	(170,151)
Total gross technical charges	(5,200)	(315,601)	(7,253)	(39,524)	(367,578)
Gross balance on technical account	(221)	9,099	1,569	(3,359)	7,088
Reinsurance balance on technical account	(245)	(22,479)	(1,533)	1,507	(22,750)
Balance on technical account	(466)	(13,380)	36	(1,852)	(15,662)

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

2. Loss before taxation (continued)

Line of business analysis (continued)

For the year ended 31 December 2020 (restated note 1)

	Accident and health £'000	Fire and other damage to property £'000	Third party liability £'000	Miscellaneous £'000	Total £'000
Gross written premiums	5,462	351,437	9,538	38,634	405,071
Gross premiums earned	5,592	371,169	9,987	35,531	422,279
Interest receivable and similar income	-	2,485	64	-	2,549
Total gross technical income	5,592	373,654	10,051	35,531	424,828
Gross claims incurred	(5,664)	(242,409)	(5,240)	(31,650)	(284,963)
Gross operating expenses	(2,077)	(199,351)	(5,189)	(14,340)	(220,957)
Total gross technical charges	(7,741)	(441,760)	(10,429)	(45,990)	(505,920)
Gross balance on technical account	(2,149)	(68,106)	(378)	(10,459)	(81,092)
Reinsurance balance on technical account	950	22,047	(1,332)	4,443	26,108
Balance on technical account	(1,199)	(46,059)	(1,710)	(6,016)	(54,984)

Geographical analysis
All policies underwritten by the Company related to risks based in the United Kingdom and associated Crown Dependencies.

3. Investment income

	2021 £'000	2020 £'000
Investment income on available-for-sale financial assets	1,365	2,036
Realised gains/(losses) on available-for-sale financial assets	256	(356)
	1,621	1,680

All of the investment return in the year arose on available-for-sale financial investments.

4. Interest receivable and similar income

	2021 £'000	2020 £'000
Interest receivable and similar income: instalment fee income	(21)	2,549
Proceeds from sale of Accident, Sickness and Unemployment ('ASU') book	55	-
	34	2,549

The reduction of instalment fee income is due to the Company having ceased to charge a fee for policies paid in instalments.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

5. Insurance claims

	2021 £'000	2020 £'000
Claims paid		
- gross	220,517	248,241
- reinsurance recoveries	(139,355)	(59,929)
	81,162	188,312
Change in insurance liabilities		
- gross	(33,457)	28,268
- reinsurance recoveries	14,606	(128,270)
- gross unexpired risk provisions	10,367	8,454
- reinsurers' share of unexpired risk provisions	(5,367)	(4,033)
Net claims and change in insurance liabilities	67,311	92,731

6. Acquisition costs

	2021 £'000	2020 £'000
Acquisition costs	92,132	113,553
Change in deferred acquisition costs	15,838	7,182
	107,970	120,735

All commissions have resulted from direct insurance business.

7. Employee information
The Company had no direct employees during 2020 since they were employed by LVGIG. As a result the Company incurred no direct staff costs and made no direct contributions towards retirement benefits (2020: £nil). Staff costs were transferred through re-charges from LVGIG.

8. Directors' emoluments
These figures represent that portion of the Directors' emoluments that are estimated to relate to their services to the Company:

	2021 £'000	2020 £'000
In respect of services as Directors:		
Aggregate emoluments	572	908
Aggregate money purchase contributions	5	31

The emoluments of the Chairman, S. Treloar, are not included in the disclosure above as this role is considered incidental to his wider role within the LVGIG group. The disclosures in respect of his emoluments are made within the LVGIG report and financial statements.

Four (2020: three) Directors have been granted awards under LVGIG's long term incentive plan ('LTIP') schemes. There is a LTIP scheme each year, with each covering a period of four years. Performance measures, both financial and non-financial, are attached to each scheme and performance against these measures drives the final award value. The LTIP payments are included in emoluments in the financial year that payment is made.

The emoluments received by the Directors in 2021 and 2020 were settled by the parent Company, LVGIG and were partially included within the recharge made to the Company.

	2021 £'000	2020 £'000
Highest paid Director:		
Emoluments	573	526
Money purchase contributions	4	10

Emoluments and money purchase contributions for the highest paid director include amounts in respect of their services as a director of the Company and in respect of their role for the Parent Company.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

9. Other expenses

		2021 £'000	2020 £'000 Restated (note 1)
Administrative expenses	(i)	62,098	88,811
Investment management expenses		83	119
Impairment of intangible assets (note 14)		-	9,066
Impairment of tangible assets (note 15)		-	2,226
		62,181	100,222

(i) Administrative expenses

	2021 £'000	2020 £'000 Restated (note 1)
Recharge from LVGIG - staff related costs	18,452	26,580
IT software, consulting and maintenance costs	27,770	36,986
Levies	13,604	14,989
Provisions (note 23)	(219)	4,045
Others	2,491	6,211
	62,098	88,811

10. Reinsurance commission and expenses

	2021 £'000	2020 £'000
Reinsurance commissions	(76,441)	(119,467)
Change in reinsurance deferred acquisition costs	(11,342)	17,203
Expenses recoverable from reinsurers	(12,425)	(16,117)
	(100,208)	(118,381)

11. Total tax credit

	2021 £'000	2020 £'000 Restated (note 1)
Current tax		
- Current tax for the year	(2,101)	(6,053)
- Adjustments in respect of prior years	(138)	599
Total current tax credit	(2,239)	(5,454)
Deferred tax		
- Movement in temporary differences	(917)	(4,072)
- Impact of change of taxation rates on deferred taxation balances (2023: 25%)	(1,162)	(31)
- Adjustments in respect of prior years	64	-
Total deferred tax credit	(2,015)	(4,103)
Total tax credit	(4,254)	(9,557)

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

11. Total tax credit (continued)

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2021 £'000	2020 £'000 Restated (note 1)
Loss before tax attributable to equity holders	(14,041)	(53,304)
Corporation tax at 19% (2020: 19%)	(2,668)	(10,128)
Effects of:		
Adjustments in respect of prior years	(138)	599
Adjustments in respect of prior year deferred tax	64	(59)
Expenses not deductible for tax purposes	21	62
Impact of change of taxation rates on deferred taxation balances	(1,162)	(31)
Impact of transfer pricing adjustments	(371)	-
Tax attributable to equity shareholders	(4,254)	(9,557)

12. Income tax assets

	2021 £'000	2020 £'000 Restated (note 1)
Tax due within 12 months	2,015	6,142

13. Deferred Tax

	Net tax asset/ (liabilities) as at 1 January 2021 £'000	Tax credited to the income statement £'000	Tax credited to equity £'000	Net tax asset as at 31 December 2021 £'000
Excess of capital allowances over depreciation	5,691	151	-	5,842
Claims equalisation reserve	(1,928)	1,928	-	-
Available-for-sale financial assets	(459)	-	575	116
Tax losses	64	(64)	-	-
Deferred tax asset	3,368	2,015	575	5,958

	Net tax asset / (liabilities) as at 1 January 2020 £'000	Tax credited to the income statement £'000	Tax (charged) to equity £'000	Net tax asset/ (liabilities) as at 31 December 2020 £'000
Excess of capital allowances over depreciation	3,223	2,468	-	5,691
Claims equalisation reserve	(3,499)	1,571	-	(1,928)
Available-for-sale financial assets	-	-	(459)	(459)
Tax losses	-	64	-	64
Deferred tax asset/(liabilities)	(276)	4,103	(459)	3,368

The Deferred Tax for the year 2021 is measured at 25% (2020: 19%). An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

Fairmead Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2021

14. Intangible assets

	2021	2020
Cost	£'000	£'000
As at 1 January	72,371	72,371
As at 31 December	72,371	72,371
Accumulated amortisation		
As at 1 January	72,371	58,771
Amortisation and impairment charge for the year	-	13,600
As at 31 December	72,371	72,371
Closing net book value	-	-
Opening net book value	-	13,600

Intangible assets relate to the costs directly associated with the development of computer software.
Following a review of the carrying value of the intangible assets at 31 December 2020, the assets were fully impaired to £nil net book value at the same date to reflect a reduction in the expected economic life of the Company's existing software assets.

15. Tangible assets

	2021	2020
Cost	£'000	£'000
As at 1 January	5,934	5,934
As at 31 December	5,934	5,934
Accumulated depreciation		
As at 1 January	5,934	2,594
Depreciation and impairment charge for the year	-	3,340
As at 31 December	5,934	5,934
Closing net book value	-	-
Opening net book value	-	3,340

Following a review of the carrying value of the plant and equipment at 31 December 2020, the assets were fully impaired to £nil net book value at the same date to reflect a reduction in the expected economic life of the Company's existing assets.

16. Investments in subsidiaries

The details of the Company's subsidiaries are set out below:

Held directly by the business	**Nature of business**	**Incorporated In**
Fairmead Distribution Services Limited ('FDSL')	Distribution company	England & Wales
Buddies Enterprises Limited ('Buddies')	Pet insurance intermediary	England & Wales

The registered office of both subsidiaries is 57 Ladymead, Guildford, Surrey, GU1 1DB. The subsidiaries are 100% owned and have a 31 December financial year end.

17. Deferred acquisition costs

	Gross 2021 £'000	RI 2021 £'000	Gross 2020 £'000	RI 2020 £'000
As at 1 January	57,499	(52,562)	64,681	(35,359)
Acquisition costs movement in provision	(15,838)	11,342	(7,182)	(17,203)
As at 31 December	41,661	(41,220)	57,499	(52,562)
To be amortised within 12 months from the reporting date	41,661	(41,220)	57,499	(52,562)

18. Investments: other financial investments

	2021 £'000	2020 £'000
Financial investments designated as available-for-sale:		
Debt securities and other fixed income securities	110,900	170,556
Accrued interest	1,431	1,845
	112,331	172,401
Expected to be received within 12 months from the reporting date	21,150	24,031
Expected to be received after 12 months from the reporting date	91,181	148,370
	112,331	172,401

All current and prior year financial investments have been designated as available for sale. Financial investments have been allocated between those expected to be received within 12 months and after 12 months.

None of the financial investments have been pledged as collateral against derivative liabilities (2020: £nil).

Fair value hierarchy
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: The unadjusted quoted price in an active market for identical assets or liablities that the entity can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The following table presents the Company's assets by FRS 102 hierarchy levels:

As at 31 December 2021	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Debt securities and other fixed income securities	110,900	41,846	69,055	-
Accrued interest	1,431	210	1,221	-
Total financial investments	112,331	42,056	70,275	-

As at 31 December 2020	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Debt securities and other fixed income securities	170,556	73,702	96,854	
Accrued interest	1,845	257	1,588	-
Total financial investments	172,401	73,959	98,442	-

Fairmead Insurance Limited
Notes to the Financial Statements
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19. Technical provisions

	Gross 2021 £'000	RI 2021 £'000	Gross 2020 £'000	RI 2020 £'000
Provision for unearned premiums	143,681	(100,055)	208,113	(132,089)
Claims outstanding	159,582	(124,765)	193,038	(139,365)
Unexpired risk provision				
As at 1 January	8,454	(4,033)	-	-
Movement in provision	10,367	(5,367)	8,454	(4,033)
As at 31 December	18,821	(9,400)	8,454	(4,033)
Total technical provisions	322,084	(234,220)	409,605	(275,487)

Expected net insurance claim cash flows

	Date of undiscounted cash flow						Carrying value
	0-1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4+ years £'000	Total £'000	Total £'000
As at 31 December 2021							
Gross claims outstanding	78,947	37,153	21,191	14,894	7,397	159,582	159,582
Net claims outstanding	17,222	8,107	4,624	3,250	1,614	34,817	34,817
As at 31 December 2020							
Gross claims outstanding	118,931	36,807	18,785	10,254	8,261	193,038	193,038
Net claims outstanding	33,068	10,234	5,223	2,851	2,297	53,673	53,673

Insurance cash flows are based on the expected date of settlement.

Movement in claims outstanding

	Gross 2021 £'000	RI 2021 £'000	Gross 2020 £'000	RI 2020 £'000
As at 1 January	193,038	(139,365)	164,770	(11,095)
Claims arising	180,302	(118,256)	266,559	(178,902)
Claims paid	(220,517)	139,355	(248,241)	59,929
Adjustments to prior year gross liabilities / reinsurance assets	6,759	(6,499)	9,950	(9,297)
As at 31 December	159,582	(124,765)	193,038	(139,365)

Movement in unearned premium

	Gross 2021 £'000	RI 2021 £'000	Gross 2020 £'000	RI 2020 £'000
As at 1 January	208,113	(132,089)	225,321	(69,659)
Movement in provision	(64,432)	32,034	(17,208)	(62,430)
As at 31 December	143,681	(100,055)	208,113	(132,089)

All unearned premiums are expected to be earned within one year.

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20. Debtors

	2021 £'000	2020 £'000
Receivables arising out of direct insurance operations - policyholders	71,842	93,845
Receivables arising out of direct insurance operations - intermediaries	35,619	42,817
Amounts owed by group undertakings - reinsurance receivables	8,306	348
Amounts owed by group undertakings	46,904	14,661
Other prepayments and other receivables	13,389	13,023
Other debtors	68,599	28,032
Total debtors	176,060	164,694
Receivable within 12 months from the reporting date	176,060	164,694

Within Receivables arising out of direct insurance operations - policyholders is £604k (2020: £2,975k) due from related parties and within Receivables arising out of direct insurance operations - intermediaries is £335k (2020: £275k) due from related parties. These relate to premiums collected by Buddies on behalf of the Company.

As in the prior years, the Company does not have significant receivables that are past due and for which provision has not been made at 31 December 2021. A total bad debt provision of £5,567k was held at the SOFP date (2020: £4,523k) in regards to receivables arising out of direct insurance operations from policyholders and intermediaries where any payment is overdue for more than 60 days or there is specific concern over recoverability.

Other prepayments and other receivables includes imprest float balances provided to certain suppliers and managing general agent partners to fund policyholder claims payments of £12,128k (2020: £9,945k).

Included within 'Amounts owed by group undertakings' is £44,845k (2020: £11,676k) receivable from Allianz Societas Europaea ('Allianz SE'). This is money transferred by the Company to the Allianz SE group cash pool as part of the wider Allianz SE group cash management processes. Also included are £530k (2020: £1,265k) receivable from Buddies and £1,529k (2020: £1,720k) receivable from LVGIG.

21. Cash at bank and in hand

	2021 £'000	2020 £'000
Cash at bank and in hand	13,401	13,460

Included within cash is £1,700k of treasury bills (2020: £nil) which matures within 3 months after year end.

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22. Claims development tables

The tables below present changes in the historical provision for losses and loss adjustment expenses since 2016 and the provision for losses and loss adjustment expenses arising in each subsequent accident year.

The top section of the tables illustrate how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amounts appearing in the statement of financial position date.

Gross of reinsurance

Accident year	2016	2017	2018	2019	2020	2021	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
- At end of accident year	152,102	168,852	234,502	241,444	249,256	180,302	1,226,458
- One year later	144,514	163,728	235,671	246,317	240,899	-	1,031,129
- Two years later	146,021	165,140	241,819	249,973	-	-	802,953
- Three years later	148,098	165,648	244,978	-	-	-	558,724
- Four years later	148,344	167,510	-	-	-	-	315,854
- Five years later	148,777	-	-	-	-	-	148,777
Estimate of cumulative claims	148,777	167,510	244,978	249,973	240,899	180,302	1,232,439
Cumulative payments	(147,452)	(164,941)	(236,094)	(236,654)	(212,948)	(81,558)	(1,079,647)
Outstanding claims provision	1,325	2,569	8,884	13,319	27,951	98,744	152,792
Outstanding claims provision for prior accident years							4,645
Claims handling provision							2,145
Total claims liabilities recognised in the statement of financial position							159,582

Net of reinsurance

Accident year	2016	2017	2018	2019	2020	2021	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
- At end of accident year	151,456	168,233	183,690	138,433	76,607	62,046	780,465
- One year later	143,731	163,096	185,370	143,736	63,070	-	699,003
- Two years later	145,240	164,881	182,269	146,254	-	-	638,644
- Three years later	147,371	163,058	185,039	-	-	-	495,468
- Four years later	144,779	164,532	-	-	-	-	309,311
- Five years later	144,823	-	-	-	-	-	144,823
Estimate of cumulative claims	144,823	164,532	185,039	146,254	63,070	62,046	765,764
Cumulative payments	(144,563)	(164,028)	(184,084)	(142,743)	(66,282)	(34,406)	(736,106)
Outstanding claims provision	260	504	955	3,511	(3,212)	27,640	29,658
Outstanding claims provision for prior accident years							4,084
Claims handling provision							1,075
Total claims liabilities recognised in the statement of financial position							34,817

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23. Provisions

Customer remediation redress provision	2021 £'000	2020 £'000
At 1 January	4,692	10,423
Provided during the year	(219)	4,045
Utilised during the year	(4,473)	(9,776)
At 31 December	-	4,692

During 2019, the Company identified matters arising from historic trading and operations within its household book of business expected to require customer redress. In each case the Company provided for its best estimate of the cost of remediating customers from the date the matter first arose. The provision was based on a number of assumptions, which as further information emerged, were revised. The remediation exercise has been completed and settled in 2021.

24. Trade payables

	2021 £'000	2020 £'000
Payables arising from insurance and reinsurance contracts		
- agents, brokers and intermediaries	5,797	7,419
- reinsurers	37,528	23,851
	43,325	31,270

All trade payables are expected to be settled no more than twelve months after the statement of financial position date. Within trade payables arising from reinsurance contracts, £3,469k (2020: £662k) is due to related parties.

25. Other payables and financial liabilities

		2021 £'000	2020 £'000
Amounts owed to group undertakings		573	580
Other payables	(i)	22,314	22,207
Accruals		10,897	14,811
Reinsurance share of deferred acquisition costs (note 17)		41,220	52,562
		75,004	90,160

	2021 £'000	2020 £'000
(i) Other payables		
Insurance Premium Tax ('IPT')	18,112	18,150
Sundry Creditors	4,202	4,057
	22,314	22,207

All other payables and financial liabilities are expected to be settled no more than twelve months after the statement of financial position date.

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26. Commitments

a) Capital commitments

Authorised and contracted commitments payable after 31 December 2021 are £nil (2020: £nil).

b) Guarantee

In 2016 the Company executed an indemnity executed in favour of Legal & General Resources Limited ('LGRL') in respect of Flood Re arrangements and the requirement to provide uncapped indemnity for any data protection breaches relating to data provided by Flood Re (which includes local authority/council tax data). The agreement with Flood Re also requires Tata Consultancy Services ('TCS'), that provide software support and related systems maintenance to the Company under a separate contract between TCS and LGRL, to offer the indemnity as well as they act as an outsourced party in the arrangement. As the liability of TCS is capped in the agreement between TCS and LGRL, the Company executed this indemnity in favour of LGRL for any claim by Flood Re against TCS for breach where the claim exceeds the £30m cap.

c) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2021 £'000	2020 £'000
- Not later than 1 year	1,117	1,117
- Later than 1 year and not later than 5 years	2,102	3,218
	3,218	4,335

27. Share capital

	2021 £'000	2020 £'000
Issued and fully paid:		
36,999,999 ordinary shares of £1 each	37,000	37,000

28. Retained earnings

	2021 £'000	2020 £'000 Restated (note 1)
As at 1 January	22,312	66,059
Retained loss after taxation for the year	(9,787)	(43,747)
As at 31 December	12,525	22,312

29. Available-for-sale reserve

	2021 £'000	2020 £'000
Balance as at 1 January	1,959	-
Change in value of available-for-sale financial assets	(2,879)	2,418
Deferred tax on these items	575	(459)
Balance as at 31 December	(345)	1,959

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30. Holding company

The immediate parent company is LVGIG. The immediate parent company is registered and domiciled in United Kingdom.

The ultimate parent company is Allianz SE, a company incorporated in Germany, which is the controlling party. Allianz SE is the first and largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. These financial statements therefore provide information about the Company as an individual undertaking. Copies of the financial statements of the ultimate holding company, Allianz SE, are available on request from Allianz SE, Koeniginstrasse 28, 80802, Munchen, Germany.

31. Related Party Transactions

i) Key management personnel
Key management personnel represented by the members of the board of Directors are listed on page 11. Director remuneration is discussed in detail in note 8.

ii) Transactions with group companies
The Company performed a number of transactions with the Allianz SE group of companies during the normal course of business. The following transactions were undertaken, and the corresponding balances receivable/(payable) at the year end with FDSL (a), Buddies (b, c and d), LVGIG (e), Allianz SE (f), PIMCO Europe Ltd ('PIMCO') (g), Allianz Re (h) and Liverpool Victoria Insurance Company Ltd ('LVIC') (i).

	Credit/ (charge)		Receivable/ (payable)	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
a. Settlement of inter-company expenses (FDSL)	-	-	(553)	(555)
b. Policy collections by Buddies	-	-	604	2,975
c. Intermediary relationship with Buddies	(512)	(1,107)	335	275
d. Policy servicing provided by Buddies	(613)	(494)	530	1,265
e. Net integration cost expenses	16,389	7,492	1,529	1,720
f. Cash pool	60	37	44,845	11,676
g. Investment management fees	(83)	(104)	(20)	(25)
h. i) Reinsurance written premium (Allianz Re)	(103,645)	(230,324)	(18,161)	(39,008)
ii) Reinsurance written commission (Allianz Re)	28,085	73,524	4,628	10,747
iii) Reinsurance claims (Allianz Re)	85,149	93,809	18,370	27,947
i. Revolving credit facility with LVIC	-	-	-	-

a. The Company settles expenses on behalf of FDSL, who subsequently reimburse the Company.
b. The Company uses its subsidiary Buddies to collect premiums in respect of pet policies sold.
c. The Company sells Pet insurance through its subsidiary, Buddies, which acts as intermediary. Buddies receives commission in respect of the premiums sold on Buddies branded policies, and the balance of premium owed on the policies (net of commission) is treated as a receivable due from Buddies.
d. The Company uses its subsidiary Buddies to service policies and claims in respect of pet policies sold. The receivable is the claims float advanced to Buddies to settle claims on behalf of the Company, net of costs incurred that are recharged to the Company.
e. The net integration expenses recoverable from LVGIG.
f. The Company engages the services of PIMCO to manage the investment portfolio.
g. The Company transfers money daily to Allianz SE cash pool for Allianz SE group cash management.
h. Reinsurance premium, commission and claims accepted/paid by Allianz Re as part of the Company's catastrophe and liability reinsurance quota share treaty. The balances shown are the net position owed on the arrangements with Allianz Re of a £8,306k debtor (2020: £348k) as per note 20, and a £3,469k creditor (2020: £662k) as per note 24.
i. LVIC provides a revolving credit loan facility to the Company. Refer to note 33 for further details.

None of the above balances are secured on the assets of any Allianz SE group undertaking.

32. Critical accounting estimates and judgements

General comments regarding assumptions and methodology

Actuarial and statistical methods have been applied to the claims data to arrive at the estimates of the claim reserves gross and net of reinsurance. The reserve is the sum of the outstanding case estimates on the claims administration system, plus an amount for claims which have been incurred but have not yet been reported and an allowance for changes in the system case estimates. The most uncertain element of the reserve is the Incurred but Not Reported ('IBNR') amount.

The IBNR reserve can be thought of as the difference between the amount which will ultimately be paid minus the amount that has already been paid minus the amount reserved for as case estimates.

For the household business, IBNR includes not only claims which have not yet been reported, but also the positive or negative development of the case estimates attributed to reported cases, also known as Incurred But Not Enough Reported ('IBNER').

In cases where the claims data provided contains claims handling expenses, these are included and projected in the estimates of the claim reserves. In addition, allowance is made for unallocated claims handling expenses on outstanding and IBNR claims.

A margin is held over and above the best estimate IBNR reserve to allow for the uncertainty in reserves.

Various methods are used to determine the IBNR. The choice of method depends on the class of business and the peril being assessed. The methods are explained below:

Projection of paid and incurred claim amounts using the basic chain ladder method

These are methods for estimating the ultimate cost (and therefore the incurred but not reported claims) based on either the paid or the incurred (i.e. the paid claims plus the notified case estimates) claims data.

Development factors are calculated for each origin period which reflect the patterns of claim reporting and payment, and the relative adequacy of the notified case estimates over time. The choice of historic period for determining development factors is a matter of judgement.

Projection of the number of claims reported using the basic chain ladder method and application of average cost per claim methods

The basic chain ladder method described above is used to project the ultimate number of claims (and therefore the incurred but not reported claims) for each period. The ultimate cost is then estimated by multiplying the ultimate number of claims for each origin year by an appropriate average cost assumption. The average cost assumption is derived by taking account of historical data, trends and external industry data, and applying appropriate judgement.

Exposure based methods

Exposure based methods estimate the ultimate cost (and therefore the incurred but not reported claims) based on exposure measures relating to the origin years considered. The simplest exposure based method is the expected loss ratio method. The ultimate cost is estimated by multiplying the earned premium for the relevant origin period by an estimate of the loss ratio for that origin period. This selected loss ratio takes account of historical data, trends and other available information such as premium rating activity and requires judgement. The Bornhuetter-Ferguson approach combines the chain ladder method described above with the expected loss ratio method. This moderates the influence of the current development of the most recent origin years on the estimate of the ultimate cost. This can be beneficial in circumstances where the data for the most recent origin years is sparse or for longer tailed classes.

32. Critical accounting estimates and judgements (continued)

Key drivers of uncertainty in the Company's reserves

Uncertainty in the Company's reserves can arise from a number of factors both internal and external. For example:

- On Household, the the biggest driver of uncertainty, IBNR claims could increase due to the emergence of latent claims for example, in liability following an adverse court judgement, or in subsidence as an improvement in the housing market leads to an increase in surveys and hence a greater number of cracks being noticed.
- A downturn in the economy could drive increased IBNR unemployment claims on the ASU product, both in terms of increased frequency and increased claim duration.
- The choice of actuarial methods and the underlying assumptions within these models.

Given this uncertainty, it is Company policy to hold reserves above the best estimate. The total margin held as at 31 December 2021 was 7.7% (2020: 7.2%) of the booked reserves net of reinsurance excluding the Allianz Re Quota Share (excluding claims handling expenses).

Reserving at this level provides a margin against reasonable levels of uncertainty, whilst avoiding excessive prudence for UK GAAP reporting purposes.

Covid-19 impact on claims

The Company's ASU product provides fixed monthly payments, for a maximum of 12 months, should the policyholder become unemployed. Reserves at 31 December 2021 reflect the experience to date plus an allowance for IBNR claims. Covid-19 has not significantly affected claims experience over 2021.

A relatively benign year for adverse weather has supported the experience on the Household accounts over 2021. Pet insurance has performed in line with expectations.

Business interruption cover

The Company is exposed to business interruption claims through its MGA business. Whilst this business is 100% reinsured, meaning there is no financial exposure, this does give rise to uncertainty in the gross claims figures. The Company is also responsible for the customer and regulatory aspects of this business. The Company has followed the guidance issued by the FCA regarding the management of Business Interruption claims, including the implications of the Supreme Court judgement, and the management of these claims is in line with this guidance.

Financial impact of the uncertainty

All figures in this section are based on the reserving exercise performed as at 31 December 2021.

Household

The household margin is 7.4% of the booked gross-net reserves (2020: 6.8%). The margin is held to cover the uncertainty associated with adverse claims experience.

Accident, sickness and unemployment

The potential impact of Covid-19 on both claims frequency and duration has been considered when setting sickness and unemployment reserves. Claims experience in 2021 has not reflected a material increase in either.

Premium uncertainty

Premiums are accounted for in the period in which the risk commences as gross written premium. Estimates are included for premiums not notified by the year end. For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The total gross written premium of such estimated premiums was £28,080k (2020: £31,052k). The total earned premium on such estimated premiums as at 31 December 2021 was £3,439k (2020: £3,426k).

33. Risk management and control

The Company's primary objective in undertaking risk management activity is to manage risk exposure in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Company's risk appetite, is in place for material exposures.

33. Risk management and control (continued)

A significant part of the Company's business involves the acceptance and management of risk. The Company operates a formal risk management framework to ensure that all significant risks are identified and managed.
Financial risk is categorised as follows:

- Insurance risk;
- Market risk;
- Credit risk;
- Liquidity risk; and
- Operational risk.

In addition, the Company sets out considerations in respect of Brexit and the Covid-19 pandemic below.

Insurance risk
Insurance risk arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk is managed using the following techniques:

Policies and delegated authorities for underwriting, pricing and reinsurance
The Company's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. Pricing is based on assumptions which have regard to past experience and expected future trends. Insurance exposures are limited through reinsurance.

The principal general insurance reinsurances are excess of loss catastrophe treaties and proportional reinsurance. Under the excess of loss catastrophe treaty, the cost of claims from a weather event, in excess of an agreed retention level, is recoverable from reinsurers. Under the proportional cover the reinsurer receives a share of premium and in return pays the same share of claims. This reinsurance acts after the excess of loss catastrophe treaty.

Reserving policy
The Company has a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience.

The principal products of the Company are:

Household (2021 GWP: £281,189k; 2020 GWP: £360,449k)
These contracts provide cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. The Company uses reinsurance to manage the exposure to an accumulation of claims arising from any one incident, usually severe weather. The catastrophe cover in place up to the end of 2021 reinsured the Company for losses between £30m and £965m (2020: £40m and £625m) for a single event. This catastrophe cover acts after a 100% quota share treaty acting on business from MGA, which has been effective from 31 December 2019. A quota share treaty is in force that reinsures 50% of all business meaning 50% of all premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims being recovered from the reinsurer.

A new catastrophe treaty came into force from 1 January 2021 to 31 December 2021 which was a joint treaty and covered the whole of LVGIG. This treaty provided protection to LVIC, Highway Insurance Company Ltd ('HICO') and the Company. Under this treaty all losses in the Group are combined and ceded to the treaty. The treaty reinsures the Group for total losses between £30m and £965m for a single event. This cover acts after the 100% quota share treaty acting on business MGAs, effective from 31 December 2019. This treaty has been renewed on 1 January 2022 and now reinsures the Group for total losses between £30m and £925m for a single event.

Accident, sickness and unemployment (2021 GWP: £7,829k; 2020 GWP: £13,655k)
These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months. From 1 January 2020, a quota share treaty is in force which reinsures 50% of all business meaning 50% of all earned premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims incurred being recovered from the reinsurer. The ASU book is now in run-off following the sale of this business in 2021.

33. Risk management and control (continued)

Insurance risk (continued)

Pet (2021 GWP: £21,181k; 2020 GWP: £30,967k)

These contracts provide cover in respect of veterinary expenses incurred treating policyholder's pets. Liability cover is also provided up to a limit of £2m (2020: £2m). At 30 June 2021 the accident excess of loss reinsurance in place for claims in excess of £0.5m expired and was not renewed. This is due to a lower risk of large losses due to the migration of the book. From 1 January 2020, a quota share treaty is in force which reinsures 50% of all business meaning 50% of all earned premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims incurred being recovered from the reinsurer. The Pet book is now in run-off following the start of the migration of this business in 2021.

Key risk factors

Weather events

Significant weather events such as windstorms, coastal and river floods and prolonged periods of freezing temperatures can lead to significant claims.

Concentration

The insurance of properties which are concentrated in high risk areas, or an above average market share in a particular region, can give rise to a concentration of insurance risk. This risk is managed by ensuring that the risk acceptance policy, terms and premiums both reflect the expected claim cost associated with the location and avoid adverse selection. Additionally, exposure and competitor activity is monitored by location to ensure that there is a geographic spread of business. Catastrophic reinsurance cover reduces the Company's exposure to concentration of risk. The catastrophe reinsurance is designed to protect against up to a modelled windstorm and coastal flood event with a return probability of at least 1 in 500 years (2020: 1 in 500 years).

Subsidence

The incidence of subsidence can have a significant impact on the level of claims on household policies. The Company's underwriting and reinsurance strategy mitigates the exposure to concentrations of risk arising from geographic location or adverse selection.

Economic downturn

Periods of rapid and prolonged national economic downturn can create significant variation in the frequency and severity of accident, sickness and unemployment claims experience.

Market risk

The Company's exposure to market risk is influenced by external factors such as changes in interest rates and credit spreads. Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates. Credit spread risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in credit spreads above the risk-free rate. The Company is exposed to these risks on the investment portfolio that is maintained to meet the obligations to policyholders. During the year, the Company invested in government and corporate bonds and so is not exposed to equity and property price fluctuations.

The Company invests in sterling denominated assets only and so is not exposed to losses as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies.

Credit risk

Credit risk is the exposure to loss if another party fails to perform its financial obligations to the company.

The Company's exposure to credit risk includes:
- Banking counterparty risk;
- Investment counterparty risk;
- Reinsurer credit risk; and
- Premium debtor and supplier prepayment risk.

Banking and investment counterparty risks are controlled through limits on the exposure to individual counterparties. Reinsurer credit risk is controlled through a requirement that all reinsurers have S&P ratings of A- or better or AM Best rating of A- or better and who are approved by the Allianz Group Risk Security Vetting Team for the type of business being reinsured. Limits are placed on premium and supplier risks to mitigate exposure.

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33. Risk management and control (continued)

Credit risk (continued)
The credit profile of the Company's assets exposed to credit risk is shown in the table below. The credit rating bands are provided by independent rating agencies. For unrated assets, internal ratings are maintained which are used to manage exposure to these counterparties. No provision for impairment has been made at year end (2020: £nil) on the basis that balances are considered to be recoverable, other than that in respect of premium debtors disclosed in note 20.

	AAA	AA	A	BBB	BB & below	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2021							
Government debt securities	42,786	28,066	13,376	26,163	509	-	110,900
Accrued interest	662	199	158	402	10	-	1,431
Cash and cash equivalents	-	-	13,401	-	-	-	13,401
Financial assets	43,448	28,264	26,935	26,565	519	-	125,732
Reinsurers' share of contract liabilities	-	223,776	9,146	-	-	1,298	234,220
Receivables (note 20)	-	53,299	-	-	298	122,463	176,060
	43,448	305,339	36,081	26,565	817	123,761	536,012

	AAA	AA	A	BBB	BB & below	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2020							
Government debt securities	61,389	51,607	18,302	38,248	1,010	-	170,556
Accrued interest	668	280	199	682	16	-	1,845
Cash and cash equivalents	-	-	13,460	-	-	-	13,460
Financial assets	62,057	51,887	31,961	38,930	1,026	-	185,861
Reinsurers' share of contract liabilities	-	263,689	11,782	-	-	16	275,487
Receivables (note 20)	-	13,453	1,344	-	2,401	147,496	164,694
	62,057	329,029	45,087	38,930	3,427	147,512	626,042

The Company continues to invest in a portfolio containing Government, Corporate and Covered bonds.

Liquidity risk
Liquidity risk is the risk that the Company either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can only secure such liquid financial resources either at an excessive borrowing cost relative to that achieved in the recent past or that typically payable by a comparably rated borrower or through the sale of illiquid assets at a price significantly below the fair value of such assets in the recent past.

The Company maintains sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from all contingent events with a probability of occurrence of up to 1 in 200 years, as identified through stress and scenario testing and the annual planning process.

The Company has access to a £150m revolving credit facility provided by LVIC. The agreement with LVIC has been in force since September 2020 and expires on 31 December 2023. The revolving credit facility is sufficient to cover the liquidity requirements arising from a 1 in 200 catastrophe event modelled in the stress and scenario testing exercise. The sufficiency of the facility is regularly monitored by management.

The Company's investment portfolio is entirely made up of highly rated government and corporate bonds. These assets are also considered to be appropriate sources of liquidity.

The following aspects of liquidity risk are relevant to the Company:

Projected market conditions cash flow risk
The risk that a change in the economy, market conditions or the business environment may change the size or timing of the financial obligations resulting in the need to increase its liquidity levels.

Cash flow timing risk
The risk that the actual timing of cash flows may vary to those projected. However, the nature, type and effect of timing differences will differ for those associated with insurance business funds.

33. Risk management and control (continued)

Liquidity risk (continued)

Contingent liquidity risk
The risk from the occurrence of high impact events for which no provision has been made in liquidity forecasts due to the events having an extremely low probability of occurrence. Such events giving rise to contingent liquidity risk may include:
- External events, particularly those of a catastrophic nature, which may give rise to significant number of claims or policy withdrawals requiring settlement; and
- A significant failure in internal controls either resulting in direct financial loss or the need to pay redress to customers who may have suffered disadvantage as a result of failure.

Operational risk
The Company aims to implement cost-effective controls to reduce operational risk exposures. Control performance is monitored regularly and weaknesses or failures reported, with appropriate action plans. The Risk and Compliance Committee reviews operational risk exposures and controls bi-monthly.

Internal processes and customer service standards while carefully controlled and managed may fail or be impacted by external factors such as fraud or terrorist action giving rise to adverse customer reaction and a resultant loss to the Company; either a monetary loss or a loss of future sales.

Brexit risk
The United Kingdom officially left the European Union ('EU') on 31 January 2020 and finalised a new trade deal on 24 December 2020. As the Company's operations are UK based, the Company has not experienced and does not foresee any material exposure to Brexit risk on the business operations.

Following the UK's withdrawal from the EU, the Company is now adhering to Solvency II regulations under UK legislation. This has not led to any material changes in the Company's SII Technical Provisions or Solvency Capital Requirement.

Covid-19 risk
The Company has reviewed and considered the impact of the Covid-19 pandemic and the wider economic consequences on the Company’s resources and concluded that this does not pose a material threat to the business prospectively.

The Company, together with the Group, closely reviews the effects of Covid-19 on the Company's operations in line with government advice and Group policies. During the year, there has been a focus on employees, with activity to encourage working remotely, promoting mental health and well being; whilst continuing to prioritise customers' needs and providing the service they would expect.

The development of the Covid-19 pandemic has had a notable impact on the business, but most particularly from an operational perspective. Throughout the pandemic, the Company has continued to provide critical services to customers and has developed remote working capabilities across all areas of the business so that a majority of operations can now be carried out remotely.

There has been an estimated benefit of £4m to Household insurance claims as a result of Covid-19 in 2021 compared to normal experience. An increase in time that customers have spent at home has driven a reduction in incidences of theft and quicker responses to other perils such as fire and escape of water, reducing the average cost of those claims.

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33. Risk management and control (continued)

Sensitivity analysis

a) *Claims events*
The following table shows material sensitivities to claims events for the Company on pre-tax profit and equity, net of reinsurance. This analysis has been carried out prospectively taking into account the reinsurance the Company had in place from 1 January 2022 (2020: 1 January 2021).

	Impact on pre-tax profit net of reinsurance	Impact on equity net of reinsurance	Impact on pre-tax profit net of reinsurance	Impact on equity net of reinsurance
	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Sensitivity test				
Single storm event with 1 in 200 year probability	(10,621)	(8,603)	(13,348)	(10,812)
Subsidence event - worst claim ratio in last 30 years	(25,969)	(21,035)	(16,788)	(13,598)
5% decrease in overall household claims ratio	5,711	4,626	6,233	5,049
5% surplus over net claims liabilities	(1,741)	(1,410)	2,783	2,254

The joint catastrophe treaty which came into force on 1 January 2021 and covered the whole of LVGIG has been renewed for 2022. This treaty is in force between 1 January 2022 and 31 December 2022. This treaty provides protection to LVIC, HICO and the Company. Under this treaty all losses in LVGIG are combined and ceded to the treaty. The treaty reinsures LVGIG for total losses between £30m and £925m (2020: losses between £30m and £965m) for a single event. When the treaty is adjusted for the Company's exposure only, the treaty is equivalent to providing protection for Company losses between £15m and £475m (2020: between £16m and £505m).

For any single event with claims in excess of £15m (2020: £16m) but less than £475m (2020: £505m) the ultimate cost to the Company, before quota share reinsurance but after MGA reinsurance, would be £15m (2020: £16m) plus the cost of the reinsurance reinstatement premium and claims handling expenses. This reduces to £8m (2020: £8m) plus half the cost of the reinsurance reinstatement premium and claims handling expenses once quota share reinsurance is allowed for. The impact of a 1 in 500 year modelled windstorm and coastal flood event would not exceed the catastrophe cover, with an estimated total cost to the Company of £23m (2020: £30m) before allowing for quota share. This reduces to £12m (2020: £15m) once quota share reinsurance is allowed for. For the purposes of calculating the recoveries from the joint treaty the above sensitivities assume LVIC and HICO would also experience catastrophe losses in line with their exposure.

b) *Market conditions*
The table below provides management estimates of the impact on the Company's pre-tax profit and equity to changes in market conditions.

	Impact on pre-tax profit 2021 £'000	Impact on equity 2021 £'000	Impact on pre-tax profit 2020 £'000	Impact on equity 2020 £'000
Sensitivity test				
100bps increase in interest rates	(2,932)	(2,375)	(4,721)	(3,824)
100bps increase in credit spreads	(2,104)	(1,704)	(3,330)	(2,697)

As at 31 December 2021, all investments are in government and corporate bonds and so the Company's material exposures are to interest rate risk and credit spread.

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33. Risk management and control (continued)

Capital

The Company's capital resources are measured and monitored on a regulatory basis and to comply with the minimum capital requirements. Following the implementation of the Solvency II regulatory regime, as adopted by the Prudential Regulation Authority (PRA), which came into force on 1 January 2016, capital resources are managed on a Solvency II basis. The regulatory capital requirement is determined using the Standard Formula. This was previously determined using the Company's PRA approved internal model. However following the acquisition of the Company by Allianz Holdings plc, application was made to the PRA to revoke the Internal Model approval, and this was granted with effect from completion of the acquisition on 31 December 2019.

The capital that the Company needs to hold above its liabilities to meet the Company's objectives and ensure continued solvency is assessed on a quarterly basis, and the results of these calculations are presented to relevant internal governance forums. Solvency ratios are disclosed in detail in the Company's Solvency and Financial Condition Report (SFCR) which can be found on the Allianz website: https://www.allianz.co.uk/about-allianz/our-organisation/financial-results.html. As at 31 December 2021 the Company held £68m (2020: £62m) of surplus Own Funds above the SCR requirement, representing a regulatory capital coverage ratio of 208% (2020: 179%). This buffer of capital resources over the regulatory requirement ensures that the Company is able to more than meet its insurance obligations after a 1-in-200 year event. In line with its risk management approach, the Company maintained an appropriate capital buffer throughout the previous year and remain well above its risk appetite action level.

The risk appetite, which is set by the Board of Directors, sets out the Company's approach for managing own funds, target capital coverage ratios and actions to be taken when managing Own Funds. The Company aims to maintain an appropriate buffer of capital resources over the regulatory capital requirements and the internal liquidity targets. The capital coverage is projected over the business planning horizon. Solvency and liquidity levels are monitored on a monthly basis, and used to inform any dividend recommendations.

34. Subsequent events

The conflict in the Ukraine has not had a direct effect on the Company although management are closely monitoring the impact on the financial markets, the supply and price of materials and information security threats. Futher detail of the Director's assessment of the impact to the Company can be found in the Directors' report on page 10.