COMPANY REGISTRATION NUMBER: 03232514

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

J M Dye	(resigned 30.11.21)
R O Hudson	(resigned 14.05.21)
S Treloar	
D A Torrance	
D J Larnder	
C W T Dinesen	
R M Murison	
F K Dyson	
P J Evans	(appointed 14.05.21)
C G Townsend	(appointed 29.04.21)
C J Holmes	(appointed 22.02.22)
S C McGinn	(appointed 22.02.22)

Company Secretary
C M Twemlow

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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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STRATEGIC REPORT

1. Principal activities

Liverpool Victoria Insurance Company Limited ('LVIC', 'the Company') is a wholly owned subsidiary within the Allianz Holdings plc ('AZH') group of companies ('Allianz', 'the Group') which is one of the largest general insurers in the United Kingdom measured by gross written premium. The Company's principal purpose is the undertaking of general insurance business through both the direct and broker distribution channels. The primary sources of premium income are from the sale of motor insurance products and home insurance products. Motor insurance products include private car, specialist car and motorcycle. The Company also underwrites road rescue, pet and travel Insurance.

As part of the acquisition of Liverpool Victoria General Insurance Group Limited ('LVGIG') its immediate parent, by AZH, which concluded December 31, 2019, the Company ceased writing Commercial broker new business. The Commercial broker business represented a separate major line of business for the Company and is therefore presented as a discontinued operation. The discontinued operations are therefore shown on one line only in the Statement of Comprehensive Income.

As part of Allianz's strategy to diversify and grow its business, on January 3, 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') subsequently renamed as Fairmead Insurance Limited ('Fairmead'). Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home and was at the time, the seventh largest Home insurance provider in the UK with more than 2 million customers. Fairmead use various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors ('IFA's').

During 2021, the first tranche of Direct customers of Fairmead, were invited to start their policies with the Company or with its subsidiary Highway Insurance Company Limited ('HICO'). The Company went live via a small number of brokers with a new Home offering. In addition, Home Legal and Home Emergency business has been written by the Company's subsidiary HICO.

In July 2021, the Allianz business in the UK restructured its operations to form two new trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated central functions of Operations, Finance, Risk and Human Resources. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific segments. The products sold by the Company fall within the scope of the Allianz Personal wider division, which also includes speciality products such as Animal Health and musical instruments. The CEO of Allianz Personal is S Treloar, who was previously CEO of the LVGIG group of companies and is a Director of the Company.

2. Results and dividends

The profit after tax for the year attributable to the shareholders is £94,035,000 (2020: £42,865,000) as set out on page 42. During 2021, the Directors have declared and paid £164,000,000 to the parent company as an interim dividend, calculated using judgement, including the closing solvency position at the point of payment. See note 31 for further details. In 2020, the directors declared and paid £126,369,030 (£13,000,000 of which was accrued through equity in 2019). Of the total paid in 2020, £73,369,030 was a final dividend in respect of the 2019 accounts and £53,000,000 was an interim dividend for 2020. The Net Asset Value at December 31, 2021 was £567,222,000 down £102,201,000 from the position the previous year partially due to the aforementioned dividend payment.

3. Business review and developments

(a) Results and performance

The 2021 results for the Company show a profit before taxation from continuing operations of £110,362,000 (2020: £77,913,000). The Quota Share reinsurance arrangement entered into with Allianz Re has been renewed for 2021 on a 40% basis, up from 20% in 2020. This new contract has changed in nature, whereby 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"). Instead a deposit is retained by the Company, there is no longer a profit share element and the reinsurer bears' a greater share of the expenses.. The 2021 underlying result also benefited from lower Motor claims frequency as a consequence of the worldwide COVID-19 pandemic, to a much lesser extent than seen in 2020.

2021 saw the Company maintain the number of customers who hold a LVIC policy at 4.6m (2020: 4.6m).

Customer satisfaction measures within LVGIG (which represents the Company and its subsidiaries) have improved with our underlying Net Promoter Score ('NPS') on LVGIG which represents the customers of the Company and its subsidiaries (excluding Fairmead) increasing by 4% to 76% (2020: 72%). LV= was recognised by Which? as Insurance Provider of the Year 2021 and as a recommended provider for Car, Home and Breakdown.

The following factors have had a material effect on the result for the year (see also (g) Key performance indicators on page 10):

1. Premium written: Conditions have remained very competitive, particularly in respect of motor insurance. Rate reductions in Direct Motor in response to continued softening helped to stabilise policy volumes. Overall the Company saw a decrease in premium written on a continuing basis by 1.2% driven almost entirely by reductions in rates on Motor. The Home portfolio has seen strong retention rates in 2021, including the first tranche of Fairmead Home customers starting their policies during the year. Throughout 2021, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing long-term profitable growth in Home lines helping to diversify its reliance upon Motor.

2. Underwriting result: The Company's underwriting result from continuing operations decreased during 2021, with the combined ratio deteriorating from 83.4% to 88%. This is primarily due to an increase in motor claims frequencies in 2021 from the very low levels of 2020, although frequencies in 2021 were still lower than that experienced historically.

3. Investment returns: Overall investment returns for 2021 were £28.3m, a decrease of £32.8m, from the previous year. The gains in 2020 were as a result of the portfolio restructure following the appointment of new fund managers PIMCO, an Allianz SE company. During 2021 dividend income was received from the Company's subsidiary, LV Repair Services Limited ('LVRS') of £10m (2020: £21m), whereby in 2020 LVRS paid a larger amount due to the build-up of retained earnings.

3. Business review and developments (continued)

(a) Results and performance (continued)

4. Expenditure: The Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy. During the year the Company continued to invest in significant integration costs of £31.1m in relation to both the acquisition of the Fairmead Home business and the integration of IT systems with Allianz. These costs are reported within other expenses and consisted of: building new products; setting up processes for the transfer of Fairmead customers to the LVGIG underwriters LVIC and HICO and integration of processes & systems with Allianz.

5. Claims: During 2021, the Company continued to experience reduced motor frequencies which has been offset by slightly higher levels of large motor claims. Underlying vehicle repair costs continue to increase due to inflation and increasing supply chain costs due to COVID-19 and the ongoing additional complexity of the technology. On the Home portfolio there has been benign weather experience over the year slightly offset by a number of large property and liability claims alongside elevated subsidence frequency from the first half of the year. Overall gross claims from continuing operations have increased by 9.6% year on year to £817.2m from £746.3m.

6. Reinsurance: For the 2019 renewal onwards, there was a change of reinsurer to Allianz SE, the ultimate parent company, at a 20% quota share arrangement on new business. For the 2021 renewal, the amount being ceded has been increased to 40%. As explained previously (see section 1 Principal Activities) the Quota Share reinsurance arrangement changed in nature from a “Funds Transferred” to a “Funds Withheld basis”, which has materially impacted the net figures versus 2020.

7. Impairment: During 2020, the Company reviewed the value of its investment in the subsidiary company, Highway Insurance Group Limited (‘HIG’). The value of HIG has been held at initial cost since purchase which had a carrying value of £332m. The review of the Net Asset Value (‘NAV’) above that initial cost indicated the need to complete an impairment assessment. The Company has used the value in use method and impaired the value of the underlying subsidiary, HIG by £137.5m. As at year end 2021, the value in use for HIG has remained higher than the written down purchase price, therefore no such impairment was required at December 31, 2021 (see note 17 for further information).

(b) Business environment

In August 2021, the Financial Conduct Authority (‘FCA’) issued the General Insurance Pricing Practices policy statement PS21/11, which took effect from January 1, 2022. The new rules will ensure that there is no price differential between new business and renewal customers using the same channels, ending practices of subsidising new business prices. This will have a major impact on both Personal Lines Motor and Home insurance markets.

The Whiplash Injury Regulations came into effect on May 31, 2021 which will also have a significant impact on the level of payments made to Whiplash claimants.

(c) Strategy

The LVGI Groups vision, which the Company is part of is to be Britain’s best loved insurer, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperformance in both the Motor and Home personal lines and, with the acquisition by Allianz of Fairmead in 2020, increasing the diversification from personal Motor by increasing personal Home insurance.

During 2021, the Allianz business in the UK restructured its operations to form two new trading divisions, Allianz Personal and Allianz Commercial supported by the integrated central functions of Operations, Finance, Risk and Human Resources. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific segments. The products sold by the Company fall within the scope of Allianz Personal. The CEO of Allianz Personal is S Treloar, who was previously CEO of the LVGIG Group of companies and is a Director of the Company.

3. Business review and developments (continued)

(d) Principal risks and uncertainties

Financial risks to which the Company responded to during the last two years include adverse movements in investments held, in particular the increase in credit spreads (the gap between yields and the risk free rate) on the corporate bond portfolio. This started to improve towards the end of 2021.

Over the last two years we have worked closely with our key suppliers to understand and manage the impact of COVID-19 on our supply chain. The reduced demand helped these companies to operate with their own diminished operational capabilities but equally put financial pressure on many of them.

The solvency position of the Company is monitored on a regular basis and as noted above, the impact has in some cases been positive, such as the reduced claims frequency and in others causes a strain. We continue to assess the level of solvency against the Company's risk appetite and maintain a number of contingency actions should the solvency position become under stress and need addressing.

Pricing: Motor market rates fell over 2021 as claims severity continued to increase, but overall claims were lower due to decreased frequency. The market uncertainty around the implementation of the FCA Pricing Study may have also played into the latter part of the year.

Economic Environment: During 2021, the UK economy continued to recover towards pre-pandemic levels although uncertainties remained for a number of industries and sectors. For the UK, in particular UK Government Short dated bonds, rates recovered from the negative positions at the end of 2020 of -0.04% up 69bps to 0.65% reflecting the more positive outlook. Medium to long-term bonds also rose. In December 2021, the Bank of England increased the base rates from the historic low of 0.1% up to 0.25%, with the ongoing increase in inflation rates.

Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities. More generally, impacts from COVID-19 and Brexit such as supply chain disruption are driving a heightened level of inflation risk. This has led to inflationary pressure on property and motor damage claims through materials, parts and labour, and also injury and liability claims through delays in treatment for example. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims. As an indication, a 1% increase in claims inflation across all claims corresponds to a £6m increase in the ultimate cost of claims.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

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

Business Change: The Company has continued on the journey it started in 2019, to centralise key services such as its Risk and Finance functions, along with the previously merged IT, HR, Compliance and Internal Audit which fully integrated into Allianz (in 2020) giving the Company access to a wider pool of expertise.

Distribution/Market developments: The influence of the mobile internet and price comparison websites (commonly referred to as "aggregators") continues to be a major impact on the UK business environment. The use of artificial intelligence and the need for digital transformation is now at the forefront of how the Company wants to do business with its customers and as such the Company is looking at ways to utilise the technology available. Social media continues to be a feature which influences the way that the Company conducts its business, and is therefore monitored closely by the Company. The Company launched the digital monthly subscription Flow product in 2020, which was further expanded in 2021 to an annual product.

In addition, the Company is aiming to be a leader in underwriting insurance for electric cars with the launch in 2021 of our new electric vehicle portal ElectriX (https://www.lvelectrix.co.uk), which aims to help our customers electric car needs at every point of their journey.

Insurance specific developments in technology, such as driverless cars, are other potential factors of material market transformation in the future. The Company is not only prepared to respond quickly to changing circumstances but is looking to lead the way with innovation through the use of data science and new technology.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as it considers appropriate through the purchase of reinsurance protection. During 2021, the Company experienced some impact from the storms at the end of the year, but has broadly stayed in line with levels anticipated in the annual business plan.

Regulatory: The Company used the Standard Formula to calculate its capital requirements during 2021. As noted on page 6 section b, in August 2021, the FCA issued the General Insurance Pricing Practices policy statement PS21/11, which took effect from January 1, 2022. Further information can be found in the Section 172 Report.

Following the Russian military invasion of Ukraine on February 24, 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 in particular, underwriting and direct investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

Whilst the Company has no direct operational impact or underwriting exposure to Russia or Ukraine, a minimal level of travel insurance claims are anticipated arising from trip cancellations and repatriations. We are monitoring closely any impacts of the event in Ukraine on claims' supply chains and inflation for our core Motor and Home products. As of today, we believe these are within our normal trading parameters, however long-term effects are uncertain and dependent on the duration of the disruption.

Our investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate and emerging market bonds have declined due to rising spreads. Values of developed market bonds initially benefited from a flight to safety but have since declined as yields increased. Securitised assets, real estate and private debt funds have been relatively unaffected by the crisis and continue to provide stable income. In January 2022, we invested £2.3m in an Emerging Markets fund which has limited direct investment exposure to Russian, Ukrainian and Belarussian issuers through debt investments; however there were none present in 2021. The emerging market debt is carefully monitored and the investment has been impaired by £0.6m during Q1 2022. Overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool, where highly liquid assets are retained in a centrally managed fund.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

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 our customers and increasing the cost of our 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 local and global Crisis Management framework.

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

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

(e) Future outlook

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

We will look to monitor the operational risks and impacts of the potential inflationary environment, continuing to put the customer at the heart of everything we do and working with our suppliers to ensure we continue to treat customers fairly.

(f) Significant post year end events

On February 22, 2022 the Company made a permanent capital contribution of £25,000,000 to Highway Insurance Group Limited; one of its subsidiaries.

In February three named storms impacted the UK in the space of a week, Dudley, Eunice and Franklin. Storm Eunice brought major weather impacts, with a red warning for wind covering south-east England for the first time. The claims caused by these events are not as severe as initially feared and we expect the impact to be approximately £11m gross of reinsurance (£7m net) in excess of the planned Q1 2022 weather allowance.

Following the escalation of events in Ukraine, the widespread uncertainty has led to an increase in credit spreads on fixed income securities. As a consequence, the Company has recorded unrealised losses on its investment portfolio as at March 31, 2022 of around £58.1m. The Company does not anticipate that there is any significant risk that coupon and capital repayments will not be received as they fall due.

3. Business review and developments (continued)

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

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

KPI	2021	2020	Comments
Premiums written	£1,211.4m	£1,226.3m	Conditions have remained very competitive and the Company experienced a decrease in premium written on a continuing basis by 1.2% driven almost entirely by Motor.
Underwriting loss ratio	66.0%	61.9%	The underwriting loss ratio has deteriorated, primarily due to motor claims gradually returning to near pre-pandemic levels in light of the significant reductions seen in 2020.
Expense ratio *	22.0%	21.5%	The year on year expense ratio has increased, being impacted by restructuring costs relating to the transfer of the Fairmead Home business.
Combined ratio	88.0%	83.4%	The overall combined ratio of 88% has increased, primarily due to the increase in motor claims which gradually returned to near the pre-pandemic levels.
Investment return	£28.3m	£61.1m	Investment returns have decreased by £32.8m, primarily due to a substantial one off realised gain in 2020 of £23m as the investment portfolio was transitioned to a new strategic asset allocation under the new fund managers PIMCO, an Allianz SE Group company.
Net assets	£567.2m	£669.4m	Net assets year on year have decreased by £102.2m, due to unrealised losses in the investment portfolio and an increase in the dividend paid.

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

- *Underwriting loss ratio - Calculated as: Net insurance claims / Net premium revenue*
- *Expense ratio * - Calculated as: Other income less other operating and admin expense / Net premium revenue*
- *Combined ratio - This is the combination of the underwriting loss ratio and the Expense ratio*

The Company also uses a range of non-financial KPIs which are disclosed and managed by Allianz.

SECTION 172 REPORT

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

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

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

The Board has undertaken a review of its effectiveness during the year and is in the process of carrying out actions to further improve Board governance arrangements. Further information on the review is set out in the Corporate Governance report on page 24.

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.

Customers

Customer centricity is fundamental to the LVGIG Group 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. At the beginning of the year, as the country faced another lockdown, the Company and its employees continued to support customers, suppliers and communities through what continued to be a difficult time for many.

SECTION 172 REPORT (continued)
Customers (continued)

A number of initiatives set up in 2020 continued through 2021 to support customers, including the Green Heart Fund, where funds were set aside to enable refunds to car insurance customers who were struggling financially and needed our support the most. Administration and cancellation fees were also waived, payment holidays made available across a number of products and free enhancements to policies were provided to customers who worked for the NHS or were key workers.

LV= was recognised by Which? as Insurance Provider of the Year 2021 and as a recommended provider for Car, Home and Breakdown.

A key method of engaging with our customers across our business is the Top Down Net Promoter Score (TDNPS). The TDNPS is an important indicator that our customer centric culture is embedded within the organisation. We ask our customers and those of our competitors for honest and anonymous feedback and then benchmark the results. During 2021 customer satisfaction measures remained strong within the Allianz Personal businesses with our underlying TDNPS score on LVGIG which represents the customers of the Company and its subsidiaries (excluding Fairmead) at 76% (2020: 72%). These results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions.

In addition, on a day to day basis our customer-facing people engage with and foster relationships with our 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 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 from the LVIC business, 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. The Customer and Conduct Committee reports into the Boards on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into decision making.

In addition, during 2021, the Board engaged an independent third party to undertake a review of culture across the Allianz Holdings plc 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 Board better monitor culture, including metrics to measure customer outcomes.

Employees

The Company does not employ any staff. During the year, LVGIG, the Company's immediate parent company, and Allianz Management Services Limited ('AMSL'), a subsidiary of AZH, provided administration services and staff to the Company and to other Group companies. LVGIG and AMSL have a high level of resources and expertise which benefit the Company and the Group. Operationally, since the restructure, employee engagement is led by the Chief Human Resources Officer of the Group, with the Human Resources team working directly with the business divisions of Allianz Commercial and Allianz Personal. The approach taken across the Group to employee engagement is explained below; however there are some variances in methods used across Allianz Commercial and Allianz Personal, where appropriate or required.

SECTION 172 REPORT (continued)

Employee Engagement

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

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods include the Allianz Engagement Survey ("AES") and additional 'pulse' surveys sent to employees on various topics, town hall presentations (which have been virtual following the impact of COVID-19), newsletters via the employee intranets.

At the end of 2021, the first townhall with Colm Holmes, the new CEO of the Group, was held for employees. This was a chance for employees to 'meet' Colm Holmes virtually and learn more about his vision for the Group as a whole. These townhalls have continued into 2022, with other senior executives (including the CEO of Allianz Personal) invited to join Colm to discuss important topics and answer questions raised by employees.

Within Allianz Personal, communication with our people is a key focus with various engagement activities undertaken throughout the year supported by our intranet which contains regular updates for our people. The Allianz Personal Executive Committee conduct monthly webinars with the leadership team to share the Allianz Personal strategy and to provide updates on particular topical items of interest. Throughout 2021 as the impacts on day to day working arrangements as a result of the COVID-19 pandemic continued, regular meetings were held with the Senior Leadership team who cascaded updates to all our people. Each year there are a number of leadership conference meetings to further share important messages and facilitate discussion and debate. These messages are then cascaded throughout the organisation. Within Allianz Commercial, there are regular 'employee broadcast calls' for employees working within that business (including central services) led by the Allianz Commercial Executive Committee members, where employees are encouraged to ask questions directly to key speakers.

As some of our people return to the office under the new 'ways of working', including hybrid working, this will provide opportunities for more engagement between the Directors and employees. It is envisioned that in 2022 the Boards will hold the Board meetings at different office locations in the UK to facilitate more engagement with employees across the Group.

During 2021 employees took part in the annual AES. The AES is a valuable employee feedback platform and an indicator of the Group's corporate culture and levels of employee engagement. The AES results include the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus which is used to measure the quality of the work environment, practices and opportunities.

Inclusive Meritocracy is Allianz's target culture and can be described by three principles:

1) people and performance matter in a culture of inclusive meritocracy;
2) the 'what' and the 'how' count and define individual performance at Allianz and
3) people attributes set the aspiration for how each employee should act.

The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES.

SECTION 172 REPORT (continued)

Employee Engagement (continued)

The AES results are collated to give a Group-wide result and also broken down by division (such as focusing on engagement within each division, by lines of business and by team). The survey results are shared with the AZH Board and the Company's Board and action plans are developed based on the feedback received within teams. The Allianz Personal Executive Committee also review the results for employees of Allianz Personal. The results of the survey are directly linked to the performance objectives of the AZH Executive Committee and key leaders within the Group, which includes senior leadership of the Allianz Personal businesses. This approach ensures that people, matters of importance to them and the impact of decisions on the workforce are actively considered by the Board and the leadership team when making decisions. 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.

Our People and Culture

Creating a diverse and inclusive culture remains at the heart of Allianz's strategy for the future. We have several initiatives to help achieve gender balance at all levels and are pleased to have made further positive changes throughout this year. We want employees to feel proud to work for Allianz, with policies and strategies that show how we respect and value individuality.

Flexible working

We understand the importance of continuing to have flexible working options available to all of our employees, as we return to our offices following the pandemic. To make sure that we are evolving our approach and to keep encouraging talent to join the business, we have set up a working group to foster a flexible working culture. Our aim is to encourage more uptake in flexible working options, especially amongst men who currently only make up a small proportion of those benefiting from flexible working patterns.

Reward and recognition

We are committed to making sure our people are rewarded fairly through regular review of our pay levels to ensure they are competitive with market rates. We pay all our employees at least the Living Wage Foundation rates of pay. In addition to basic pay, all our employees participate in an incentive scheme which is structured around both individual and business performance. LVGIG employees automatically become members of the money purchase pension scheme, My LVGIG Savings Plan, when they start working for us. We understand that the needs of our employees are different, so through our flexible benefits platform we give all employees the opportunity to select the benefits most suited to their individual needs and lifestyles.

Wellbeing

We understand the importance of our people's wellbeing particularly in the current circumstances where employees are being asked to adapt to new work-life balances. We already had many initiatives in place through our wellbeing support programme. We have increased the number of Mental Health First Aiders (MHFA's) to provide in person or virtual assistance to all employees on a confidential basis in their time of need to prevent as well as react to situations. The LVGIG Wellbeing programme has been running weekly webinars and awareness campaigns covering a variety of topics including Burnout, Stress, Breathing, Meditation and Sleep. The programme has also been extended to include champions and MHFA's from the Diversity and Inclusion employee networks to support the reach to employees from different communities or with particular characteristics. In addition, all employees have free access to the Headspace app which provides a range of support through articles, news, applications and techniques to support their wellbeing and mental health.

SECTION 172 REPORT (continued)

Suppliers

Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Board following initial meetings and negotiations by procurement and commercial teams, and direct engagement with senior management. In 2021, supplier contracts supported by summary documents were provided to the Board to enable an informed decision to be made covering areas such as cost, risk and key clauses. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement via the Local Procurement Standard. As a consequence, in 2021, the Group Board gave due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements including but not limited to areas such as information security, data privacy, risk, protection and resilience. This ensures a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Group Executive Committee assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. Regular reports on supplier performance, inclusive of risks and issues, were made available to the Board in the course of 2021 to ensure oversight of the critical suppliers.

The Supplier Relationship Management team has been set up in procurement specifically to assist teams across the Group with the management of supplier relationships by creating a framework of best practice controls and governance, and by supporting the business in managing significant supplier relationships and driving value throughout the life of supplier contracts. The team works in conjunction with our safeguarding functions such as Protection and Resilience, Information Security and Data Privacy.

This ensures continued protection and continuity of services for our customers. The collaboration ensures we are able to effectively manage supply chain risks such as COVID-19. In addition, relationships are built with suppliers at an operational level with senior management fostering partnerships and relationships with insurance aggregators, brokers, reinsurers and suppliers of the Group. These relationships are managed on a day to day basis by various relationship teams, having daily contact with key suppliers and Brokers. Feedback is monitored through the Broker NPS, renewal rates, supplier feedback and the willingness of suppliers to do business with the Group.

During the year, Allianz went to great lengths to support its suppliers and communities through what was undoubtedly a difficult time for many. Examples include improved payment terms with the claims supply chain to support cashflow, some fixed fee services paid on instruction as opposed to at the end of a claim, contribution to PPE costs on a temporary basis, additional focus on resolving aged debt issues and additional engagement with suppliers to discuss the impacts of the pandemic.

SECTION 172 REPORT (continued)

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. In 2021, the Board has considered the Periodic Summary Meeting (PSM) letter from the Prudential Regulation Authority and received regular updates on progress in relation to findings from the regulator. This has informed the planned focus areas of the supervisory engagement throughout the year. The Board also had oversight of the plan of action arising from the Financial Conduct Authority's Firm Evaluation Letter received by the Company during the year. The Board's executive and non-executive directors have regular direct contact both through written correspondence and direct dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the Group Board and the Company's Board, as relevant. Other engagement methods with regulators include regular meetings and responding to regulatory market consultations and reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Group Board or subsidiary Board, as appropriate. This ensures that regulatory matters are of key importance with a top-down approach led by the Group Board. More information on the Board's decision-making in relation to the FCA General Insurance Pricing Practices policy implementation is included below under principal decisions.

Shareholder

The Company has regard to the interests of its immediate shareholder, LVGIG, to AZH and the wider Allianz SE Group when making decisions. The Company's strategy is aligned with Allianz's strategy and the Allianz SE strategy, adapted as necessary for the Company's markets. Allianz SE nominate a non-executive Director to the Board of the Company. In 2021, the Board received regular updates from the Allianz SE Group on key matters being considered within the wider group. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments. Following the resignation of the previous Allianz SE nominated non-executive Director at the end of 2020, a new Allianz SE representative non-executive Director, C G Townsend, was nominated and was formally appointed on 29 April 2021, following regulatory approval. The approach taken ensures that the Company is aligned with and takes into account the views of the ultimate shareholder, Allianz SE, when making decisions, while also remaining independent from the ultimate shareholder.

Community and the Environment

An Environmental, Social, Governance strategy ("ESG") ensures Allianz is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. Allianz focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of our business. Allianz, including the Company, has undertaken its own initiatives during the year in the area of ESG. The Board has also reviewed the ESG strategy, analysing the Global Allianz strategy in relation to ESG and reviewing how that strategy is implemented in the UK. Allianz is fully committed to environmental, social and governance principles and consideration of our impact in these areas is an important part of Company and Group Board discussions.

LVGIG undertakes its own initiatives in its communities, which complement the activities of the Group. LVGIG's partnership with the England and Wales Cricket Board (ECB) provides financial support through #Funds4Runs to help local clubs and communities get back on their feet and support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket. During 2021, LV= committed to donating £100,000 for this programme. During the year, the Board considered the ESG 2025 plan and 2021 objectives for each area working on ESG including the opportunities and risks climate change poses.

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 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 Company's key stakeholder groups.

During 2020 and continuing into 2021, new reporting templates have been developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder considerations are properly incorporated into all Board reports. This included providing training sessions on writing Board papers to key contributors to the Board packs. The Board also undertook a review of its effectiveness during 2021, which included consideration of its decision-making processes, Board papers and overall governance. Further information regarding the review is included in the Corporate Governance Report on page 24.

During the year the Directors took the following principal decisions:

DIVIDEND

Section 172 considerations*: promoting the success of the Company for the benefit of the Company's members, long-term consequences, maintaining a reputation for high standards*
Stakeholders*: Shareholders, customers, regulators*

In June 2021 the Board recommended the payment of an interim dividend of £164m to its sole shareholder, LVGIG. In approving the payment of the interim dividend, the Directors considered the impact on the Company and the views of its stakeholders. Amongst other things, the Directors considered the needs and views of the Company's shareholder and its ultimate parent company, Allianz SE, who require dividends to be paid to ensure the long-term success and viability of the Allianz SE Group as a whole. In addition, the Board took into account the regulatory environment and sought the views of its regulators in paying a dividend. To ensure the dividend was prudent from a regulatory perspective, the Board reviewed analysis and stress tests produced by the Risk function as well as assessing the Company's solvency ratio post dividend-payment. The interests of wider stakeholders such as customers and policyholders were also considered. These stakeholders need the Company and the Group as a whole to maintain a reputation for high standards in decision making and to hold sufficient capital to meet its requirements to them in the long-term. After considering these factors, together with other considerations when paying a dividend, the Directors' concluded that the payment of the interim dividend would promote the success of the Company for the benefit of its members.

FCA GENERAL INSURANCE PRICING PRACTICES POLICY IMPLEMENTATION

Section 172 considerations*: maintaining a reputation for high standards, fostering relationships with customers and suppliers*
Stakeholders*: customers, regulators*

Following on from the external review of pricing strategy and practices conducted during 2020, the Board continued to oversee the implementation of the recommendations from the external review and the implementation of the FCA General Insurance Pricing Practices Policy ('GIPP') during 2021. The Board continued to have oversight of this critical area for the Company, in light of their duties to consider the long-term success of the Company, to ensure compliance with the new rules by the implementation deadline of 1 January 2022. The Customer & Conduct Committee and the Board reviewed the potential customer impacts and the communications approach, which was based on customer research and feedback. The Customer & Conduct Committee reviewed the customer journey for a customer renewing their policy once the new rules came into effect and were satisfied that the impact on customers had been carefully considered throughout the project. The Board considered the strategy in light of the implications of the new rules as well as the strengths of the business. In the context of the new rules, the Board also reviewed the continuing processes being undertaken by the business to assess the fairness of the value of products to customers.

INTEGRATION OF THE FAIRMEAD INSURANCE LIMITED GROUP

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*

The integration of the Fairmead business (acquired on December 31, 2019) continued to be an important strategic project for the Company and the Board. The project continues to be an important part of the long-term strategy and diversification of the AZH 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 overall, including review of impacts on employees within the business and how the integration was being managed from an employee perspective. The Risk Committee received regular updates focusing on key risks to the project. The Customer & Conduct Committee reviewed the customer impacts as the project progressed and undertook a review of customer journeys, including considering the experience of vulnerable customers. Specific metrics on customer migration were reviewed to understand potential impacts on customers and how these were being managed. The Board through reports from its committees and its own oversight was keen to ensure that customers and employees transferring from the Fairmead business were treated fairly and their interests taken into account.

OPERATIONAL RESILIENCE

***Section 172 considerations**: maintaining a reputation for high standards, consequences of decisions in the long-term*
***Stakeholders:** customers, regulator*

During the year the Board reviewed and provided input into the operational resilience project, to ensure compliance with two new regulatory policies on Operational Resilience, issued jointly by the PRA and FCA. Implementing the policies on Operational Resilience in the right way for the business and its stakeholders is critical to the success of the Company and important in maintaining the Company's reputation for high standards and putting customers at the heart of the business. The Board and the Customer and Conduct Committee (CCC) reviewed the Important Business Services identified by the business, which were the services which could cause intolerable levels of harm to customers, other stakeholders or the stability of the sector or viability of the firm where such services were disrupted. The Board and CCC then reviewed the customer impact tolerances established by the business which sets levels beyond which point the Company determines that its customers could suffer 'intolerable harm'. The Board and its Committees considered definitions used by the business to determine what is intolerable, in relation to customers, and agreed how much was acceptable in the event of disruption to an Important Business Service until it would cause intolerable harm. The Risk Committee discussed the overall project, including the broader risks. The Customer & Conduct Committee undertook a review with a specific lens on the impact on customers, including vulnerable customers. These reviews were then discussed further by the Board. In making the decision whether to approve the Impact Tolerances agreed within the business, matters considered by the Board and its Committees included the definitions used by the business to determine what is intolerable, particularly in relation to customers. In addition, the Board considered the impact on vulnerable customers and how such customers had been considered when determining the Impact Tolerances. The project is ongoing and will continue to be overseen by the Board through the course of 2022.

The Company has reported against The Wates Corporate Governance Principles for Large Private Companies which contains further information regarding the governance of the Company, how the Board makes decisions for the long-term success of the Company and its stakeholders. The Corporate Governance Report can be found on pages 24 to 34.

By order of the Board

F K Dyson
Director

April 11, 2022

Mandatory Streamlined Energy and Carbon Reporting (SECR)

The Company fulfils the statutory requirements for Streamlined Energy and Carbon Reporting which includes disclosure of the Company's carbon emissions. Under the Companies Act 2006 / SECR Regulations, 'Large' companies' are required to report their annual emissions in their Directors' report.

The Company's Streamlined Energy and Carbon Reporting statement covers the reporting period 1 January 2021 – 31 December 2021 and has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.

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

'Location Based' Method

The total energy consumption for 2021 was 7,558,823.81 kWh (2020: 6,502,491.91 kWh) equating to 1,626.702 tCO_2e (2020: 1,469.501 tCO2e)

Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during 2021 was 0.393 tCO_2e (2020: 0.34 tCO2e)

However, the Company strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (REGO) certificates. Through this strategy, within the above 2021 total energy consumption, the Company has sourced a total of 2,787,226.73 kWh of REGO backed (zero emission) electricity equating to 83.58% of total electricity use.

'Market Based' Method

The total energy consumption for 2021 was 7,558,823.81 kWh (2020: 6,502,491.91 kWh) equating to 1,064.100 tCO_2e (2020: 715.322 tCO2e)

Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during 2021 was 0.257 tCO_2e (2020: 0.17 tCO2e)

Qualifying information on the above data:

- This statement has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.
- This is the Company's second year of Streamlined Energy and Carbon Reporting and as such 01/01/2020 - 31/12/2020 data has been recorded.
- tCO2e is the tonnage of equivalent carbon emissions generated by the various greenhouse gasses (carbon dioxide, methane, nitrous oxide etc.) each of which has a 'Global Warming Potential' factor that is included in the above emission figure.
- An operational control approach has been applied to consolidate the above data.
- Total Full-Time Equivalent for use as the Metric are 4135.

1. As per GHG Protocol Scope 2, a dual method has been applied - 'location based' & 'market based'. This method of emission calculation for electricity uses both the UK Government Grid Average Emissions Conversion Factors (dated 2021) and supplier specific conversion factors relevant to the generation.

2. Carbon intensity includes all Scope emissions in the calculation.

DIRECTORS' REPORT

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

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

Stakeholder engagement

Details of how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the section 172 statement on page 11 to page 19 of the Strategic Report.

Directors and their interests

The Directors of the Company who were in office during the year are shown on page 3.

R O Hudson and J M Dye resigned as Directors of the Company with effect from May 14, 2021 and November 30, 2021 respectively. C G Townsend and P J Evans were appointed as Directors of the Company with effect from April 29, 2021 and May 14, 2021 respectively.

On December 1, 2021, C Holmes joined the business as Group CEO. On February 22, 2022 he was formally appointed as a Director of the Company.

On February 22, 2022, S C McGinn was appointed as a Director of the Company.

Results and Dividends

The results for the year are set out in the Strategic Report on page 4.

The Company has not declared and paid a final dividend in respect of the year ended December 31, 2021. (2020: £nil).

In June 2021, an interim dividend of £164,000,000 was approved and subsequently paid on July 8, 2021 in respect of the year ended December 31 2021 (2020: £53,000,000).

Financial Instruments

The Company's policies in respect of financial instruments are given in note 2 to the Financial Statements.

Going concern

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

One.Finance

In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 "Financial instruments" and IFRS 17 "Insurance contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Company has established parallel work streams in the UK supporting the overall Allianz SE Group project and to ensure local readiness. Conclusion of the project has been deferred to ensure alignment with the implementation date of IFRS 9 and IFRS 17, namely January 1, 2023. However readiness is expected within 2022, with parallel runs already completed for 2020 and 2021 in preparation.

Directors' confirmations

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

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

Auditors

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

By order of the Board

C Twemlow
Secretary

April 11, 2022

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the company's financial statements published on Allianz UK's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Report

For the year ended December 31, 2021, the Company applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles") to its business and this report sets out how the Wates Principles were applied. The Company is a wholly owned subsidiary of AZH and leverages the governance structure of the Group with AZH and the Company's immediate shareholder, LVGIG, also adopting and applying the Wates Principles. The Company's Board, the Board of LVGIG and the Group Board are comprised of the same Directors and these Boards apply the same group governance structure.

Principle One – Purpose and Leadership

Purpose

The vision in relation to the Company's business (as part of Allianz Personal) is to be Britain's best loved. This vision is aligned with the Group who have the ambition to be the best loved and most recommended by customers and partners, to attract and retain the best people and consistently exceed target returns and be recognize as leading the industry in its approach to ESG. This strategy is achieved through people centricity (putting our people first), maintaining customer satisfaction and retention rates, and growth through outperformance in our chosen markets across the Company's business. The strategy is in harmony with and complements the purpose and strategy of the Group which is committed to the wider Allianz SE group's purpose of "We secure your future" and business strategy of "Simplicity at Scale" . The key strategic objectives of the Allianz SE Group's strategy are to "Outperform, Transform and Rebalance" and is underpinned by the Renewal Agenda which comprises five important themes of customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The Company aims to deliver attractive and consistent returns to its immediate shareholder and consequently to the AZH Group and Allianz SE Group.

Customers are at the heart of all businesses within the Group with the customer centric culture embedded in the Company's business, with our purpose, "Helping you look after what you love". We benchmark ourselves against best in class to continually improve the customer experience and leverage learning from other parts of the AZH Group business. We are transforming our IT and digital capabilities through an Allianz SE Group wide initiative.

Values and Culture

Allianz's values are embedded within its culture. The Board (of AZH, LVGIG and the Company) has a strong emphasis on integrity and honesty, evidenced by regular engagement and communication with the workforce.

During 2021, the Board engaged an independent third party to provide an assessment and more detailed understanding of the current culture and its impact which it aims to align with the regulatory requirements. The review included, amongst other things, exploring how the culture supports the delivery of good customer outcomes, differences and similarities in culture between Allianz Commercial and Allianz Personal divisions of the business and whether the purpose is understood by employees. The review involved interviews, focus groups and a survey and the Board received a report on the findings. The survey found that the culture was centred on caring for our people and our customers. Detailed action plans were developed based on the findings, which will enable the Board to lead on shaping the desired culture as the business grows and develops as a part of the Group, drawing on the positive cultural aspects across the Group.

The Group's policies and practices define the values and its workforce must uphold the values through their attitudes and behaviours. The performance of all of our people is measured against attributes and success factors which are aligned with our values, which for LVGIG employees are Be Brave; Inspire Trust; With Heart and Everyone Counts.

Principle One – Purpose and Leadership (continued)

Values and Culture (continued)

When AZH (or its subsidiaries) procure products and services from third parties, it looks to do so in a sustainable manner and with an unwavering commitment to transparency within any supply chain. With respect to AZH's own products and services, they must always be clearly explained and honestly marketed. In 2021, Allianz introduced its sustainable procurement charter to encourage its suppliers to adopt and develop sound Environmental, Social and Governance (ESG) practices. For future tender assessments, Allianz will apply a minimum weighting of 10% to ESG factors, as a way of prioritising suppliers that have embedded sustainable and ethical practices within their organisation. Allianz will also provide support and education to suppliers who are invested in ESG. The insurer wants to partner with suppliers who understand the nature of the materials, products and services they're providing and the importance of protecting the environment and fostering good relations with their employees and their local communities.

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

2021 marked the second anniversary of our collaborative partnership with the University of Bristol (UoB) which we started with the vision of igniting a multi-disciplinary relationship and to play a part in developing the data scientists of tomorrow. Over the course of two years, we have established a wide range of links across the university with more than ten Centres for Doctoral Training (CDTs) and institutes through actively collaborating in cutting-edge post-doctorate (2), doctorate (4) and masters (5+) level research. Building up on successful past collaborations and the preparation made during 2021, we have reached a key partnership milestone at the start of 2022 with the submission of an EPSRC (Engineering and Physical Sciences Research Council) Prosperity Partnership bid with the project titled “Sensable Futures”. We are also supporting a number of student societies and are the exclusive sponsors of the Data Science Society. Since day one, UoB based data science team has grown from four to more than fifteen data scientist and engineers including talented UoB alumni which were recruited through internships and a breadth of careers events were supported or organised. Additionally, started in 2021/2022 academic year, twenty employees are currently undertaking a co-developed MSc in Data Science.

LVGIG's partnership with the England and Wales Cricket Board (ECB) provides financial support through #Funds4Runs to help local clubs and communities get back on their feet and support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket. During 2021, LV= committed to donating £100,000 for this programme.

In 2021, LVGIG also entered into a three year charity partnership with Family Action, who have been building stronger families since 1869. Family Action supports families and helps them build a brighter future. They do this by providing emotional, practical and financial support to more than 60,000 families every year through over 160 community-based and national services. LVGIG are supporting their FamilyLine service by donating £1 million over the duration of the partnership through corporate donations, fundraising and charity matching. FamilyLine is a free national helpline that provides support to adult family members on all aspects of family life issues via telephone, text message and email. People contact FamilyLine for many reasons, whether it's the need for emotional support or practical advice on any aspect of parenting or broader family issues. Since the start of the COVID-19 crisis, FamilyLine has seen a significant surge in families requiring ongoing support and need additional support to continue to allow their services to meet the growing demand. In addition, employees have signed up as trained volunteers to support callers through befriending activities.

Principle One – Purpose and Leadership (continued)

Strategy

In line with the Company's purpose, the Board sets its strategy and oversees performance against the strategic objectives. Strategy is developed by the Board as part of the Group-wide strategy with common purpose, values and strategic goals set by the Group Board. The strategy is segmented by business line, including a strategy for LVGIG and its subsidiaries including the Company, which complements the wider Group strategy. The Company's Board has regard to any regulatory aspects or impacts of the strategy. As a Director of AZH, LVGIG and the Company's Board, the Allianz Personal CEO engages with the Company's Board, the wider Group Executive Committee and the Allianz Personal executive committee to develop the strategy for Allianz Personal, including the Company's business.

The Company's strategy is approved by the Group Board as a part of the Group's strategy as a whole and by the Company's Board as well as being discussed and agreed with the ultimate shareholder, Allianz SE, through the annual Strategic Planning and Strategic Dialogue processes. The strategy is then implemented by the CEO of Allianz Personal. The Company's strategy is focused on the personal lines business including Home and Motor as well as continuing to invest in innovative new propositions. To achieve this, the business strategy is to put our people first and our customers at the heart of everything we do. This is supported by being a broad and balanced business, creating strength through scale but remaining simple and efficient.

Throughout 2021 Allianz focused a significant amount of time on creating an environment where employees of all backgrounds, felt included and were able to succeed, and also ensuring that as a company we continue to operate in an ethical, environmentally friendly and sustainable manner. Our progress in this area was also recognised as LVGIG were awarded 6th place in the Inclusive top 50 UK Employers List in 2021, up from 16th place in 2020.

Principle Two – Board Composition

Composition, Size and Structure

For the year ended December 31, 2021, the Board of the Company comprised five independent non-executive directors, including an independent non-executive Chair, one shareholder nominated non-executive director and three executive directors. In 2022, following the appointment of S C McGinn to the Board, the executive directorships have increased to four.

The executive Directors include both the Group CEO (J M Dye to November 30, 2021) and the Allianz Personal CEO (S Treloar) as well as the Group CFO. November 30 2021, J Dye, stepped down as CEO of the Group and resigned as a Director of both AZH and the Company. J Dye was replaced by C Holmes as CEO of the Group. C Holmes was appointed to the Company's Board subject to regulatory approval and whilst awaiting regulatory approval the Directors decided to formally approve his appointment as a Director with effect from February 22, 2022.This composition is considered appropriate for the size and nature of the business, and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

In July 2021, the Group was restructured creating two trading divisions, Allianz Personal and Allianz Commercial supported by the integrated central functions of Operations, Finance, Risk and Human Resources. Each trading division has a CEO to lead that part of the business: Allianz Personal is led by S Treloar and Allianz Commercial is led by S C McGinn. Prior to the restructure, the CEO of the Group also fulfilled the role of CEO of the Allianz Insurance plc business. As a result of the restructure, S C McGinn was appointed as an additional executive Director of the Company (and AZH) during 2021 Whilst awaiting regulatory approval, the Directors decided to formally approve S C McGinn's appointment as a Director with effect from February 22, 2022. The revised structure of the Board better reflects the nature of the business of the Company and the Group.

Principle Two – Board Composition (continued)

Composition, Size and Structure (continued)

Following the Board governance effectiveness review which was undertaken during 2021, one of the non-executives was appointed as Senior Independent Director. The shareholder nominated Director resigned at the end of 2020 and the replacement Director C G Townsend was appointed April 29, 2021 on receipt of regulatory approval.

The roles of the Chair (who is Chair of AZH and the Company) and both AZH CEO and Allianz Personal CEO are separate and clearly defined. The non-executive Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. The Allianz Personal CEO is responsible for executing the strategy of the Company and the wider Allianz Personal business.

During 2020, R O Hudson indicated his intention to step down as Chair in 2021. P Evans was selected to become the new independent non-executive Chair and a Director of the Company and was appointed with effect from May 14 2021, on receipt of regulatory approval. R O Hudson resigned from the same date. P J Evans' appointment was made through a robust selection process focussed around finding a candidate with sufficient board and chairing experience as well as relevant skills and competencies to make a meaningful contribution as the Chair of the Board. An independent executive search firm was engaged to support the selection process which was led by the outgoing Chair and overseen by the Compensation and Nominations Committee with the appointment being finally approved by the Board. The UK Group CEO and Shareholder nominated director also contributed to the selection process.

Diversity and Inclusion

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

Within the wider UK Group there is a diversity and inclusion steering committee sponsored by the Group CEO which develops the diversity and inclusion action plan. During the year, a member of the Group Executive Committee was also on the Allianz SE Group Global Inclusion Council that develops and drives the global strategy. The Group had developed a range of employee-led networks across the business which specialise in and promote aspects of diversity and inclusion. These include working parents and carers, intergenerational working, gender balance, LBGTQIA+, cultural and ethnic diversity, disability and long-term health conditions and mental health.

As an example of the Group and Company's commitment to equality of opportunity for all our people, in 2021, the Group introduced a Transitioning at Work functional rule. This was spearheaded by the Group's employee Pride networks, in collaboration with Stonewall. The functional rule stresses the importance for Allianz to create a supportive environment and provides a level playing field for all employees. It also highlights the legal context and protections afforded to trans colleagues, and the key considerations and responsibilities to create a safe and inclusive environment for anyone who may be transitioning at work or considering transition.

In relation to the Board, as at December 31, 2021, two of the eight members (25%) of the Board were female. On the appointment of S C McGinn and C Holmes the composition is 20% female. The composition of the Board is the same as that of LVGIG and AZH. New appointments to the Company's Board are recommended by the Compensation & Nomination Committee after consideration of the Board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Board recognises that its own membership is not as diverse as it should be and this will be taken into account as and when new directors are appointed to the Board, including when existing non-executive Directors come to the end of their term in office.

Principle Two – Board Composition (continued)

Diversity and Inclusion (continued)

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

Other highlights included the introduction of a new Diversity and Inclusion Action Group to lead on workforce equality across LVGIG and the development of initiatives around recruitment and talent development to progress how we will meet our target of 40% of females in senior management roles by the end of 2023. In addition, all members of the LVGIG Executive Board have entered into a reverse mentoring partnership with members of the ethnic diversity employee group and inclusion training has been developed covering tools and techniques for calling out non-inclusive language and behaviours. This is planned to be delivered to the whole workforce by the end of 2022.

Effectiveness

Under the Group corporate governance framework, the Board engages an external provider to carry out a Board effectiveness review every three years and in the intervening years there are annual Board self-assessment effectiveness reviews. The effectiveness reviews cover the Company, LVGIG, AZH and the other key entities in the Group.

During 2021 the Board undertook a detailed Board governance effectiveness review led by the new Chair, P E Evans, in conjunction with the Chief Legal Officer and Company Secretary. An independent third party was engaged to assist with carrying out an effectiveness survey as part of this review. The effectiveness review was forward looking and focused on opportunities to enhance governance effectiveness following the completion and ongoing integration following the acquisitions of the LV= General Insurance and Legal & General insurance business at the end of 2019. The review covered Board and Committee effectiveness in all respects and also considered some specific areas such as ensuring that customer outcomes and conduct risks were fully considered in all major decisions. The methodology used included a director skills assessment, director behavioural feedback, the effectiveness survey and reviews of terms of reference and agendas. The review concluded that there was a strong foundation for effective governance. Opportunities for improvement were identified including and actions plans were drawn up with progress against the actions reviewed by the Board and relevant Board Committees quarterly. The effectiveness review also recommended the appointment of a Senior Independent Director and following the review, R Murison was appointed to this role, subject to regulatory approval. Since the Board effectiveness review improvements have been implemented and the actions will continue to be tracked by the Board during 2022. A Board effectiveness survey is planned in 2022 to monitor progress. At the beginning of 2023 an independent externally led Board effectiveness review is planned, which will review the effectiveness of the Board and review embedding and progress against the actions from the 2021 review.
The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. During the year, P E Evans was appointed as Chair. P E Evans received a full induction, spending time getting to know the business from late 2020 onwards and ensuring a comprehensive hand over from R O Hudson.

External advisors are invited to provide detailed updates and training on various topics as required in order to support ongoing professional development of the Directors. Non-executive Directors have access to the Chief Legal Officer and Company Secretary and can take independent professional advice at the Company's expense.

Principle Two – Board Composition (continued)

Effectiveness (continued)

During the year, the Directors received training by participating in 4 quarterly deep dive sessions with management. The sessions cover updates on certain topics as well as discussion. The topics varied between those which focus on one area of the business and those which focus on the wider Group. There were four sessions during the year and the following topics were discussed at these sessions: Information Security deep dive on CBEST, a framework to test and improve financial sector cyber resilience; LV Internal Model proposal and its comparison to AZI's model; operational resilience including methodology for determining Important Business Services; review of the PRA's 2021 Climate Biennial Exploratory Scenario; credit risk and credit spread risk scenario; and capital allocation.

In November 2021, following an action arising from the Board governance effectiveness review, the Board approved a new consolidated Board training plan. The new training plan reviews topics across the business, which are relevant to the Board and its individual Committees. The outcome will be a greater focus on different training topics and needs of the Directors, in addition to the deep dives which have in the past been predominantly risk based.

Principle Three – Director Responsibilities

Accountability

The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. The Board held quarterly meetings during 2021 as well as strategy days with members of the Executive Team. There were also a number of ad hoc meetings during the year. The agenda for each LVIC and HICO Board meeting is considered by the Chair, Group CEO, and the Company Secretary to ensure that all regulatory and governance matters are considered appropriately. This ensures that the Board is accountable and can effectively carry out its responsibilities.

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

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

All Directors are expected to report any interests they have including any potential conflicts of interest. The Directors declare any interests at each Board meeting and the register of Directors' interests is reviewed. Where required, appropriate mitigations will be put in place, including where necessary a member excused themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Principle Three – Director Responsibilities (continued)

Board Committees

The Board composition is aligned with the Group Board and other key entity Boards within the Group, with the same Directors on these Boards. Board meetings for all of the entities with aligned Boards are held together with the Group Board, with each Company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda. The Group Board and Company's Board delegate certain activities to committees including the Allianz Holdings plc Executive Committee, the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee. All of these committees (save for the Executive Committee and the Finance & Investment Committee) are chaired by a non-executive Director who provides constructive challenge and influence across the work carried out by those committees. The Finance & Investment Committee has one non-executive Director member and is chaired by the Group CEO. The Executive Committee consists of the accountable executives for the Group. All of the Committees consider matters for the Group as a whole and matters which pertain to a particular division or Company, as required. However, there are also separate Allianz Commercial and Allianz Personal executive committees, chaired by the respective CEOs, which are forums to help the CEO lead those divisions. In addition, during the year the terms of reference of each of the Committees was reviewed and updated to ensure the duties and authorities delegated to the Committees are clearly set out and defined and that the split of responsibilities between the Committees is clear. However, the Board retains ultimate responsibility for final decisions and each Committee recommends relevant matters to the Board for final approval.

Following the Board effectiveness review which took place in 2021, culture matters became the responsibility of the Board, rather than being delegated to the Customer & Conduct Committee. The Customer & Conduct Committee continues to focus on customer outcomes and impacts and conduct issues.

Integrity of Information

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

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the Boards receive accurate, regular and timely information about the performance of the business. During 2020 and 2021 new Board reporting templates were rolled out, together with training, to ensure that papers are clear, consider relevant stakeholders, determine what action is required of the Board, contain an executive summary and conclusions. Further steps were also taken to ensure that Board packs are delivered to agreed timescales to allow sufficient time for Directors to review ahead of the meeting and facilitate useful debate and challenge at the meeting.

Information provided includes financial information, review of actual performance against plan, strategy updates, project updates, certain metrics and data and market developments.

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

Principle Four – Opportunity and Risk

Opportunity

The Board actively considers and approves strategic opportunities as these are key drivers of the strategy to outperform in our chosen markets. In 2021, this included launching the Electric Vehicle portal, and continuing the full integration of the L&G general insurance business with customer policies continuing migration into LV= Broker. The continued use of artificial intelligence and systems thinking to improve both efficiency of process and customer experience were instrumental in helping to attain ServiceMark Accreditation from the Institute of Customer Service for LV= Broker and Insurance Provider of the Year 2021 and as a recommended provider for Car, Home and Breakdown for Which.

The Board review and approve the strategy including threats and opportunities (considering the agreed risk appetites) following the planning dialogue which takes place in October and November each year with the ultimate shareholder ahead of the following financial year. Further information on the strategy setting process is provided under Principle One.

Risk

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

All businesses face uncertainty, and the challenge for management is to determine how much uncertainty Allianz is prepared to accept as it strives to grow stakeholder and customer value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value.

The Enterprise Risk Management (“ERM”) framework forms the overarching framework for management to deal with the various risks Allianz may encounter, as well as their tracking and monitoring. This also ensures that Allianz has processes in place by which we assess the risks that we are exposed to, both on a current and forward-looking basis.

The Board delegates oversight of risk management to the Chief Risk Officer (“CRO”) and the Risk Committee. The CRO is a member of the Group Executive Committee and a standing invitee to the Board. The CRO is supported by the Risk Department which provides qualitative and quantitative experts across Personal and Commercial insurance business units. However, managers in the business units are responsible for managing risk in their own areas.

To ensure the Group and the Company are always prepared in a rapidly changing environment, it has a number of key risk management processes and policies. These processes rely on a clear governance structure to enable effective risk management and culture.

Allianz has an internal control framework, which is articulated in the Board Governance and Control Policy. The Board is able to make informed and robust decisions due to the risk management systems described in the Risk Policy. The Risk Committee monitors performance against the risk management systems through the quarterly Own Risk and Solvency Assessment (ORSA) updates which it receives and reviews. Any significant deviations from the policy or other issues identified are communicated to the Board by the Risk Committee.

Principle Four – Opportunity and Risk (continued)

Risk (continued)

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

Responsibilities

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

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

In relation to the objectives in the annual corporate plan, the Company aims to ensure that no event or combination of events is possible that will cause a variance in result which is not consistent with the stated risk appetite. The Risk Committee is responsible for oversight of risks, both current and emerging. Mitigation activities are agreed by the Risk Committee and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Department via the risk management systems in place.

The Company and Group have established clear communication channels. Internally, risks are discussed and escalated to relevant committees including the Risk Committee. Externally our risk profile is outlined in the annual report and solvency and financial condition report.

Principle Five – Remuneration

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

Group Remuneration Strategy and policies ensure that remuneration of all employees is aligned to the performance of the business and adherence to its values and behaviours. Remuneration policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered and such arrangements are not put in place across the Group. The remuneration of employees below Allianz Senior Executive level is overseen by the AZH Executive Committee.

During the year the Compensation & Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing and publishing the Gender Pay Gap Report for 2021. The Board approved the publication of the Gender Pay Gap report for 2021 which emphasises the approach of Allianz to being an active and equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability.

Setting Remuneration

Compensation is set with reference to the Group's Remuneration Policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE's Group Compensation Committee. The Compensation & Nomination Committee determines total remuneration in relation to Directors (executive and non-executive) and senior executives. The Compensation & Nomination Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. The Compensation & Nomination Committee also takes into account relevant UK regulatory guidance on remuneration. When setting the bonuses to be paid in respect of the 2021 financial year, consideration was given to market conditions following the impact of COVID-19. Different stakeholder groups such as customers and the shareholder were considered, including the Compensation & Nomination Committee being satisfied that customers had been protected, when determining appropriate levels of bonus payments. There is in place a robust process to assess how material risk takers have managed material risk events and risks therein, including conduct related risks, and influenced the risk profile of the business requiring adjustments to their remuneration.

The Committee also oversees the design and operation of the performance management framework in meeting the Company's objectives and local regulatory requirements and suggests changes to it.

Principle Six – Stakeholder Relationships and Engagement

External Impacts

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

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

Throughout 2021 the Company focused a significant amount of time on creating an environment where our employees of all backgrounds felt included and were able to succeed, and also ensuring that as a as company we continue to operate in an ethical, environmentally friendly and sustainable manner. This was particularly relevant with the continued wellbeing support and financial security offered to all employees in response to the challenges of the COVID-19 pandemic.

Principle Six – Stakeholder Relationships and Engagement (continued)

External Impacts (continued)

Some of the activities in place to support this through the year were:

- A plan for direct engagement of the Board with the workforce, over and above current engagement methods employed, was reviewed and will be developed in 2022 as part of the new Allianz structure.
- An employee consultation forum is in place and support has been provided to enable this forum to become the main vehicle for Board and workforce direct engagement.
- Workforce engagement scores were reviewed regularly by the Board.
- Talent and succession planning was reviewed by the Board in 2021.
- Six Diversity & Inclusion employee network groups were established to support engagement, education and raising awareness on topics and issues and to provide a safe space for employee communities and allies to meet and share experiences. These span race, multi-culture & ethnicity, gender, generations, sexual orientation, disability & long-term health conditions and parents & carers.
- In 2021, 59 apprenticeships were created at various levels within Digital, Technology, Data and Systems Thinking for employees looking to upskill in their existing roles or re-skill in another business area. This also provided an opportunity for people to enrol on a Master’s degree in Data Science.
- As part of an ongoing commitment to create positive social impact, a new ethical standard was launched for the LV= branded bodyshop repair network – Green Heart Standard covering commitments around sustainability, employee wellbeing, diversity & inclusion and development through apprenticeships.

Stakeholders

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

By order of the Board

C Twemlow
Secretary

April 11, 2022

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 12, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuations of gross general insurance claims liabilities
- Valuation of investment in Highway Insurance Group Limited

Materiality

- Overall materiality: £11,400k (2020: £11,600k) based on the amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £8,500k (2020: £8,700k).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The 'Impact of COVID-19', which was a key audit matter last year, is no longer included because of the reduction in the level of social and economic disruption COVID-19 had compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuations of gross general insurance claims liabilities Refer to Note 2 for the accounting policies, and Notes 3 and 25 for disclosure of the related judgement and estimates. The company financial statements include liabilities for the estimated cost of settling insurance claims. These are included within the insurance contract liabilities. This key audit matter is focussed on the subjectivity of the assumptions used by management in the calculation of claims incurred but not reported (£26,932k) and PPO reserves (£43,171k) which is included within insurance claims liabilities. This is a significant accounting estimate in the financial statements and involves a significant degree of judgement. Key areas of focus this year were: ● The underlying volatility attached to estimates for the larger classes of business, such as personal motor and property business. For these lines of business, small changes in assumptions can lead to large changes in the level of the estimate held and the combined operating ratio. ● The methodologies and assumptions used in estimating the costs of claims for general insurance products (including motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and ● The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is	In performing our audit over the general insurance claims liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: ● Developing independent point estimates for classes of business considered to be higher risk, particularly focussing on the largest and most uncertain estimates, using data as at 31 August 2021 and performing roll-forward procedures to December 31, 2021. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate. ● For selected high and medium risk lines we examined the methodologies and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates against select metrics based on the company's facts and circumstances. For lower risk classes, analytical procedures were performed. ● Evaluated management's reserve uncertainty assessment. ● Obtained and reviewed reporting presented by management's actuarial team to wider management, which includes detailed reviews of key areas of uncertainty. In performing the above, we have also considered and tested the following:

significant judgement involved in the estimation of such losses, particularly as they are based on cashflow techniques rather than standard triangulation projections. While this risk is predominantly focused on under-reserving, we also considered whether excessive levels of prudence exist within management's booked insurance claims liabilities.	• Tested the underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. • The directors' assessment of estimation uncertainty. • Considered whether any of our audit procedures gave rise to an indication of management bias. • External factors that could have an impact on claims reporting and settlement, such as COVID-19, macroeconomic inflation, and the whiplash legal reforms. • Assessed the disclosures in the financial statements. Based on the work performed and evidence obtained, we consider the valuation of gross general insurance claims liabilities to be appropriate.
Valuation of investment in Highway Insurance Group Limited Refer to Note 2 for the accounting policies, and Notes 3 and 17 for disclosure of the related judgement and estimates in respect of the investments in group undertakings. The company holds a 100% investment in Highway Insurance Group Limited ("HIG"), which in turn owns 100% of the share capital of Highway Insurance Company Limited ("HICO"). HIG has no trading activities of its own and therefore is 100% supported by the value generated by HICO. HICO has been loss making in both 2020 and 2021. This casts doubt over the recoverable amount of the company's investment in these subsidiaries. Management have undertaken an impairment review and determined the value in use based on discounted future cash flows, in accordance with the requirements of IAS 36 "Impairment of assets". As a result, management have recorded no impairment. The key assumptions in their model to which the outcome is most sensitive are the loss and expense ratios, the discount rate and the rate of revenue growth, which all involve varying degrees of subjectivity. It is the levels of uncertainty and subjectivity that contribute to this being determined a key audit matter.	Our work to address the valuation of the company's investment in subsidiaries included the following procedures: • We have analysed management's impairment review, the five-year cash flow forecasts they have developed to ascertain a value in use for the HICO business, including a terminal value. • We have assessed management's ability to forecast by comparing the prior year forecasted results to the current year actuals for income and expenses. • We have considered the consistency of the assumptions used in the determination of cash flows with the Board approved 5 year plan and checked the mathematical accuracy of the model. • Additionally, we have assessed the growth rate and discount rate applied to the cash flows to determine if they reflect the growth prospects of the business, the cost of capital that applies to the business and the overall risk exposures, assisted by our valuations experts. • We have challenged management over key assumptions of loss and expense ratios, and forecast revenue growth. Furthermore, we have performed sensitivity analysis over these key assumptions to determine the impact of other scenarios on management's assumptions. • We have also assessed the relevant disclosures in the financial statements. Based on the work performed and evidence obtained, we consider the valuation of Highway Insurance Group Limited to be appropriate.

How we tailored the audit scope

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

The company is a UK domiciled insurer. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, the internal control environment and management's process for the preparation of the financial statements. We applied our materiality benchmark across each financial statement line item to identify which items were significant to the audit of the company.

Materiality

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

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

Overall company materiality	£11,400k (2020: £11,600k).
How we determined it	The amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract.
Rationale for benchmark applied	We consider the COR as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of the business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how management view the performance of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £8,500k (2020: £8,700k) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £570k (2020: £580k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Evaluating management's solvency scenario analysis and challenging management's key assumptions. We considered the governance over the production of this information and its consistency with other available information and our understanding of the business. We performed testing on the company's Solvency Capital Requirement, Risk Margin and Own Funds;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Assessing the disclosures made by management in the financial statements and checking the consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here.

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussing with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- Testing significant accounting estimates and judgements, such as general insurance claims liabilities, and the investment in Highway Insurance Group Limited, as included in the key audit matters section above;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 May 2008 to audit the financial statements for the year ended 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 31 December 2008 to 31 December 2021.

Matthew Nichols (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

12 April 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

CONTINUING OPERATIONS	Note	2021 £000	2020 £000
Insurance contract premium revenue	5	**1,203,984**	1,223,491
Insurance contract premium ceded to reinsurers	5	**(515,877)**	(292,069)
Net premium revenue		**688,107**	931,422
Investment income	6	**26,664**	38,831
Net gains on investments	7	**1,636**	22,385
Other income	8	**53,666**	59,275
Total income		**770,073**	1,051,913
Insurance claims and loss adjustment expenses	9	**(817,179)**	(746,346)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**363,312**	169,587
Net insurance claims		**(453,867)**	(576,759)
Impairment of investment in group undertakings	17	**-**	(137,487)
Other operating and administrative expenses	10	**(205,390)**	(259,754)
Finance costs		**(454)**	-
Total claims and expenses		**(659,711)**	(974,000)
Profit before tax		**110,362**	77,913
Income tax expense	14	**(15,288)**	(37,045)
Profit for the year from continuing operations		**95,074**	40,868
(Loss)/Profit for the year from discontinued operations	11	**(1,039)**	1,997
Profit for the year attributable to owners of the parent		**94,035**	42,865
Other comprehensive (expense)/ income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	32	**(38,952)**	42,098
Change in fair value of available for sale financial assets transferred to profit or loss	32	**(1,686)**	(23,994)
Income tax relating to these items	32	**8,402**	(3,664)
Other comprehensive (expense)/income for the year, net of tax		**(32,236)**	14,440
Total comprehensive income for the year		**61,799**	57,305

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

The notes on pages 46 to 93 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

			Attributable to equity holder of the Company			
			Share capital	**Available-for-sale reserve**	**Retained earnings**	**Total Equity**
	Note		**£000**	**£000**	**£000**	**£000**
Balance at January 1, 2021			**384,908**	**23,735**	**260,780**	**669,423**
Profit for the year	31		-	-	94,035	**94,035**
Items that may be reclassified to profit or loss						
Fair value losses on AFS investments	32		-	(38,952)	-	**(38,952)**
Tax on these items	32		-	8,053	-	**8,053**
Items reclassified to profit or loss						
Realised losses on AFS investments	32		-	(1,686)	-	**(1,686)**
Tax on these items	32		-	349	-	**349**
Total comprehensive income for the year			**-**	**(32,236)**	**94,035**	**61,799**
Dividends paid & payable	31	34	-	-	(164,000)	**(164,000)**
			-	**-**	**(164,000)**	**(164,000)**
Balance at December 31, 2021			**384,908**	**(8,501)**	**190,815**	**567,222**

			Attributable to equity holder of the Company			
			Share capital	Available-for-sale reserve	Retained earnings	Total Equity
	Note		£000	£000	£000	£000
Balance at January 1, 2020			384,908	9,295	331,284	725,487
Profit for the year	31		-	-	42,865	42,865
Items that may be reclassified to profit or loss						-
Fair value gains on AFS investments	32		-	42,098	-	42,098
Tax on these items	32		-	(7,999)	-	(7,999)
Items reclassified to profit or loss						-
Realised losses on AFS investments	32		-	(23,994)	-	(23,994)
Tax on these items	32		-	4,335	-	4,335
Total comprehensive income for the year			-	14,440	42,865	57,305
Dividends paid & payable	31	34	-	-	(113,369)	(113,369)
			-	-	(113,369)	(113,369)
Balance at December 31, 2020			384,908	23,735	260,780	669,423

The notes on pages 46 to 93 are an integral part of the financial statements.

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Assets			
Intangible assets	15	**17,346**	16,892
Investments in group undertakings	17	**194,625**	194,625
Prepayments and accrued income	18	**26,178**	25,443
Deferred acquisition costs	16	**55,200**	50,975
Financial assets			
- Available for sale financial assets	19(a)	**1,338,632**	1,405,270
- Loans to related parties	19(b)	**47,250**	63,000
Deferred tax asset	26	**2,839**	-
Other receivables	21	**38,749**	26,254
Reinsurance assets	22	**608,931**	273,888
Insurance receivables	23	**280,648**	249,669
Cash and cash equivalents (excluding bank overdrafts)	24	**13,867**	33,852
Total assets		**2,624,265**	2,339,868
Liabilities			
Insurance contract liabilities	25	**1,571,933**	1,518,267
Reinsurers' Share of deferred acquisition costs	16	**50,238**	-
Current tax liability	20	**18,528**	24,780
Deferred tax liability	26	**2,173**	6,974
Insurance payables	27	**7,057**	14,286
Funds withheld to reinsurers'	28	**311,481**	-
Trade and other payables	29	**95,633**	106,138
Total liabilities		**2,057,043**	1,670,445
Equity			
Share capital	30	**384,908**	384,908
Available-for-sale reserve	32	**(8,501)**	23,735
Retained earnings	31	**190,815**	260,780
Total equity		**567,222**	669,423
Total liabilities and equity		**2,624,265**	2,339,868

The notes on pages 46 to 93 are an integral part of the financial statements.

These financial statements on pages 42 to 93 were approved by the Board of Directors on April 6, 2022.

Signed on behalf of the Board of Directors

F K Dyson
Director

April 11, 2022.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Cash flows arising from operating activities			
Cash generated from operations	33	**70,540**	212,182
Income tax paid	20	**(20,534)**	(17,801)
Net cash generated from operating activities		**50,006**	194,381
Cash flows from investing activities			
Net decrease in investments at fair value through profit or loss		**1,891**	223
Net decrease/(increase) of available for sale securities		**27,684**	(452,991)
Dividends received		**-**	690
Interest received		**46,335**	53,083
Acquisition of intangible assets	15	**(645)**	-
Intragroup dividend received	6	**10,000**	21,000
Repayment of loan from/(loan to) related parties	19(b)	**15,750**	(63,000)
Net cash generated from/(used in) investing activities		**101,015**	(440,995)
Cash flows from financing activities			
Dividends paid to LV General Insurance Group Limited	31	**(164,000)**	(126,369)
Intercompany recorded through equity		**-**	13,000
Net cash used in financing activities		**(164,000)**	(113,369)
Net decrease in cash and cash equivalents		**(12,979)**	(359,983)
Cash and cash equivalents at the beginning of the year	24	**25,222**	385,205
Cash and cash equivalents at the end of the year	24	**12,243**	25,222

The notes on pages 46 to 93 are an integral part of the financial statements.

Cash flows from discontinued operations are disclosed within Note 11.

1. General information

The Company is a private company, limited by shares and incorporated and domiciled in England and Wales, whose shares are not publicly quoted. The Company underwrites general insurance risks, including motor risks. All contracts of insurance are written in the United Kingdom or the Channel Islands.

2. Accounting policies

BASIS OF PRESENTATION

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Liverpool Victoria Insurance Company Limited transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

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

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs.

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

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

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

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

These financial statements have been prepared on a continuing basis, discontinued operations are presented separately in note 11.

Going concern

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES

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

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

Investment income
Investment income includes interest from investments, dividends and interest from Available for Sale Investments ('AFS') investments and interest on loans and receivables. Dividends are included on an ex-dividend basis. Interest on AFS debt instruments and loans and receivables is calculated using the effective interest method. Investment expenses are accounted for as incurred.

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

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Financial assets
The Company classifies its investments as either available for sale financial assets, or loans and receivables. All purchases and sales of financial assets are recognised on the trade date i.e. the date the Company commits to purchase or sell the asset.

All financial assets are initially recognised at fair value plus, in the case of available for sale assets and loans and other receivables, the transaction costs that are directly attributable to the acquisition of the investment. A financial asset shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale financial assets

Available for sale financial assets ('AFS'), after initial recognition, are measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the Statement of Comprehensive Income.

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

Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the SOCI, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity (AFS reserve) until disposal or impairment.

Impairment of financial assets

The carrying values of financial assets are reviewed at each SOFP date. If the carrying value of a Trade receivable or Loans and Other receivable is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the SOCI.

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

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

Other income

Interest receivables from insurance contracts are recognised in a manner consistent with premium income. All other fee and commission income, with the exception of reinsurance commission, is recognised as the services are provided.

Reinsurance commission

A proportionate amount of reinsurance ceded to reinsurers is paid back to the Company as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual classes of business. Commissions receivable are deferred in the same way as acquisition costs, as described in the accounting policy for Deferred Acquisition costs. All other fee and commission income is recognised as the services are provided.

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance assets

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

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

Amounts recoverable from or due to reinsurers

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

Intangible assets

If the intangible asset has an indefinite useful life, then it is not amortised but tested annually for impairment.
If the intangible asset has a finite useful life, then the carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred acquisition costs
Commission and other acquisition costs (gross and reinsurance) incurred during the financial year that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins.

DAC are capitalised and amortised based on the incidence of risk of the underlying insurance contract. All other acquisition costs are recognised as an expense when incurred.

The DAC asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the Balance Sheet date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount, and the impairment loss is recognised immediately in the statement of comprehensive income.

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

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

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

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans
Loans are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method.

Other receivables
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.

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

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

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

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

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

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other payables

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

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

Dividend distribution

Dividends paid and payable are recognised in equity either when paid in cash or when they are appropriately authorised and are no longer at the discretion of the Company.

Discontinued operations

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

2. Accounting policies (continued)
CHANGES IN ACCOUNTING POLICIES

a) New and amended standards adopted

No new standards have been adopted by the Company for accounting periods beginning on or after January 1, 2021.

b) Unadopted standards

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

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

c) Amendments to standards

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

The predominance ratio test on an entity's insurance liabilities against its total liabilities includes two tests:

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

The threshold for liabilities connected with insurance compared with total liabilities is:
- Greater than 90%, or
- Greater than 80% but less than or equal to 90% and the entity provides evidence that it does not have a significant activity that is unrelated to insurance.

The Company met the criteria to apply the temporary exemption from IFRS 9 upon initial performance of the predominance ratio test at December 31, 2015. The carrying value of liabilities within IFRS 4's scope at December 31, 2015 was significant at 97% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance. The predominance ratio test has been reassessed at December 31, 2021. The carrying value of liabilities within IFRS 4's scope at December 31, 2021 continued to be significant at 93.9% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance.

2. Accounting policies (continued)

c) Amendments to standards (continued)

Disclosures associated with deferral of IFRS 9

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

The fair value at December 31, 2021 and the amount of change in the fair value during the reporting period of the Company's financial assets are as follows:

Financial assets	Fair value at December 31, 2021 £000	Movement in fair value recognised in SOCI £000
1) Financial assets that meet the SPPI criteria and not classified as FVTPL		
Available for sale financial assets		
Debt securities	1,234,592	(37,811)
Cash and cash equivalents (short-term)*	12,243	-
Total	**1,246,835**	**(37,811)**

Financial assets	Fair value at December 31, 2021 £000	Movement in fair value recognised in SOCI £000
2) Financial assets that fail to meet the SPPI criterion		
Available for sale financial assets	113,117	(2,802)
Debt securities	2,183	(28)
Total	**115,300**	**(2,830)**

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

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

	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Total £000
Available for sale financial assets						
Debt securities	429,901	270,861	185,559	283,581	64,690	1,234,592
Cash and cash equivalents (short-term)*	-	-	12,243	-	-	12,243
Total	**429,901**	**270,861**	**197,802**	**283,581**	**64,690**	**1,246,835**

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

2. Accounting policies (continued)

c) Amendments to standards (continued)

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. These amendments were effective from 1 January 2021 and have no material impact on the Company.

d) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 December 2021 reporting periods and have not been early adopted by the Company. Instead, the Company will apply the standards from the effective date.

None of these are expected to have a significant effect on the financial statements of the Company, except the following:

IFRS 17 Insurance Contracts

In May 2017 the IASB issued IFRS 17 and it was amended in June 2020. It will replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning on or after January 1, 2023. The Company has completed an initial parallel run of the financial results under IFRS 17 in line with the "One.Finance" project to understand the impact of these changes. The Company is now refining new and updated processes whilst working with Allianz SE to ensure alignment of accounting policies, this is expected to be complete by the end of 2022 to ensure compliance with the standard.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments – IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses ("ECL"). The Company, based on the impact assessment performed under One.Finance, will take advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2023, which will coincide with the expected implementation of IFRS 17. IFRS 9 introduces a forward looking ECL model. This requires judgement about how changes in economic factors affect ECLs which are determined on a probability weighted basis. Based on the assessment undertaken to date, no significant impact to the financial statements is anticipated in either net income or equity.

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

3. Significant accounting judgements, estimates and assumptions

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

The following are the critical judgements, estimations and assumptions that the Directors have made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

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

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Additional techniques are deployed in order to overcome instances where this may not be the case, which includes the treatment for the COVID-19 impact on claim development. In the case of PPO's the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the SOCI in future years.

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

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

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

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

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

Significant accounting estimate - Insurance contract liabilities (continued)

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

The Ogden Discount Rate (ODR) is a key driver in the valuation of the cost of care element of large injury claims. Having historically run at 2.5%, the rate moved materially over recent years, with the most recent review occurring in 2019 following the enactment of the Civil Liabilities Act, which set the rate at -0.25% for England and Wales. Rates are set independently for Scotland and Northern Ireland, which are currently -0.75% and -1.5% respectively.

Under the terms of this Act, the rate must be reviewed at least every five years, and hence the next review will occur at latest in 2024. Although it is considered unlikely that the rate will be reviewed prior to this date, given the long-tailed nature of injury claims many outstanding and incurred but not yet reported claims will not settle until after the next review occurs, and hence can be expected to settle on a different rate.

With the internal ODR tracker having been consistently around or below -1% over recent periods, there is potential for material impacts to the ultimate claims costs due to a revision to the ODR, in particular should this occur earlier than anticipated. It should also be noted that a possible change in 2024 is the introduction of a dual rate, whereby the potential impacts are far more uncertain than for a pure rate change.

Another recent source of uncertainty is the introduction of the whiplash reforms, effective from 31, May 2021 on an accident year basis, which are a package of measures designed to reduce insurance costs for ordinary motorists and tackle the continuing high number of whiplash claims. In particular, The Motor Insurers‘ Bureau (MIB) has developed a new online portal for managing low value personal injury claims from road traffic accident (RTA). The reforms should reduce the cost of RTA whiplash related claims.

To allow for the expected impact of the whiplash reforms, assumed frequency and severity reductions have been applied to the capped personal injury projections; these reductions have been estimated by the pricing team and are monitored regularly throughout the business. There is however significant uncertainty around the level of benefit that could materialise, and these assumptions are difficult to validate due to the limited data available, particularly since the introduction of the portal could lead to increased reporting delays initially. The impacts of the reforms differing from these assumptions is therefore a key area of uncertainty.

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

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

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

The estimation of these claims is based on historical experience projected forward taking into consideration, our expectations of the COVID-19 impacts. Where possible, multiple techniques are adopted to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. Estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

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

Significant accounting judgement - Classification of the Company contracts with reinsurers as reinsurance contracts
A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract.
Management reviews all terms and conditions of each such contract, and if necessary, where it is external to the Group (such as the Loss Portfolio Transfer) obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

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

HICO’s parent company HIG is a holding company.

Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary’s value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period, based on financial plans approved by the Directors covering a three year period, with a further two year period of projection and discounted to its present value.
See further information in the Investments in Group undertakings note 17.

The valuation of the subsidiary company LV Repair Services (‘LVRS’) does not involve significant judgement or estimates. LVRS is a service company for the Company and wider LVGIG Group, it holds no significant estimates and its turnover is driven by repairs incurred by the customers of its parent company, LVIC and fellow subsidiary HICO.

4. Capital management and risk management and control

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

The Company retains capital to meet four key objectives:

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

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

Under the Solvency II regime adopted by the PRA, there are two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2021.

The Company complied with all externally imposed capital requirements that it was subject to throughout the reporting year. As at December 31, 2021, the own funds amount to £559.4m with a surplus of 61% on SCR (unaudited) (2020: own funds equal to £669.9m with a surplus of 78% on SCR).

Risk management and control

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

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

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

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

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

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

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

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim (2020: £5.0m per claim).

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

In addition to the reinsurance contracts described above, the Company has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for the 2015 and prior accident years. The Company has also historically entered into a 20% Quota Share arrangement for the 2016-2020 accident years (each year treated separately). In 2021, a 40% Quota Share arrangement was entered into for this accident year. Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the Group exposure to general insurance concentration risk.

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

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

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**828,959**	**(318,322)**	**510,637**	770,876	(232,600)	538,276
Household	**92,256**	**(32,034)**	**60,222**	89,905	(18,457)	71,448
Travel	**1,904**	**(648)**	**1,256**	4,737	(948)	3,789
Commercial	**47,031**	**(17,256)**	**29,775**	57,683	(20,824)	36,859
Other	**3,410**	**(843)**	**2,567**	4,128	(761)	3,367
	973,560	**(369,103)**	**604,457**	927,329	(273,590)	653,739

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

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

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

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

The Company's reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions, both positively and adversely. An example of such would be a change in the Ogden discount rate. This is the discount rate set by the relevant government bodies and used by courts to calculate lump sum awards in bodily injury cases. The Company's reserves are also susceptible to non-legislative uncertainty, which includes the impact of COVID-19 on claim development as well as claim frequency and severity.

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

The most significant area of uncertainty in the claims estimation at the 2021 year-end relates to the estimated ultimate cost for the 2021 accident year. This is due to the impact of the Coronavirus pandemic which has resulted in significant disruption to the notification and settlement of claims, meaning that traditional approaches of using past claims development to predict the future are less reliable.

The table below provides a sensitivity analysis of the impact of a 1% increase/reduction in the estimated ultimate cost for the 2021 accident year claims. The selection of these sensitivities should not be interpreted as a prediction.

	Increase / (Decrease) in income statement 2021 £m	Increase / (Decrease) in total equity at December 31 2021 £m
Current accident year loss ratio		
Impact of a 1% reduction in the loss ratio for the current accident year	**4.5**	**4.5**
Impact of a 1% increase in the loss ratio for the current accident year	**(4.5)**	**(4.5)**

The selection of these sensitivities should not be interpreted as a prediction.

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

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

Analysis of claims development – gross of reinsurance

Accident year	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Initial estimate of gross provision	803.7	833.7	827.9	799.1	879.7	847.2	920.0	865.8	710.7	804.5	
One year later	766.4	791.0	793.2	845.9	834.4	829.5	870.1	845.7	645.6		
Two years later	748.6	774.5	781.4	831.4	815.0	819.8	869.9	846.1			
Three years later	728.4	758.5	770.1	794.8	801.0	821.8	877.5				
Four years later	717.3	768.7	747.0	788.9	797.4	829.6					
Five years later	725.4	731.0	742.7	778.7	806.0						
Six years later	719.9	725.7	746.0	779.0							
Seven years later	719.9	729.6	747.6								
Eight years later	719.9	728.3									
Nine years later	719.6										
Current estimate of cumulative claims	719.6	728.3	747.6	779.0	806.0	829.6	877.5	846.1	645.6	804.5	7,783.8
Cumulative payments to date	(717.1)	(720.2)	(729.2)	(758.9)	(762.4)	(731.0)	(754.5)	(726.1)	(529.5)	(452.4)	(6,881.3)
Liability recognised in the balance sheet for 2012 to 2021 accident years	2.5	8.1	18.4	20.1	43.6	98.6	123.0	120.0	116.1	352.1	902.5
Liability recognised in the balance sheet in respect of prior accident years											55.8
Claims handling provision											15.3
Provision as at 31 December 2021											**973.6**

Analysis of claims development – net of reinsurance

Accident year	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Initial estimate of net provision	792.5	822.4	817.5	704.8	772.1	640.3	709.2	684.7	559.2	462.4	
One year later	762.2	781.6	743.1	782.1	636.1	642.5	680.1	672.5	520.1		
Two years later	745.4	738.7	731.3	732.5	641.0	638.2	677.7	675.3			
Three years later	717.3	727.7	730.2	705.8	631.0	637.9	684.5				
Four years later	710.7	739.9	708.0	698.1	628.1	639.3					
Five years later	717.2	703.3	700.7	694.0	634.1						
Six years later	707.8	699.3	702.0	694.1							
Seven years later	708.4	702.2	702.3								
Eight years later	708.4	700.9									
Nine years later	708.1										
Current estimate of cumulative claims	708.1	700.9	702.3	694.1	634.1	639.3	684.5	675.3	520.1	462.4	6,421.1
Cumulative payments to date	(706.0)	(695.1)	(689.9)	(678.4)	(606.8)	(585.3)	(596.8)	(584.5)	(433.0)	(278.6)	(5,854.4)
Liability recognised in the balance sheet for 2012 to 2021 accident years	2.1	5.8	12.4	15.7	27.3	54.0	87.7	90.8	87.1	183.8	566.7
Liability recognised in the balance sheet in respect of prior accident years											22.5
Claims handling provision											15.3
Provision as at 31 December 2021											**604.5**

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

Market risk

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

Strategic asset allocation (SAA) is discussed at the monthly FIFo meetings, covering investment return and concentration and to agree any changes required. The SAA is approved by the Board.

Interest rate risk

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

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

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

Inflation risk

Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities. There are no inflation linked assets. The risk is mitigated to some extent by excess of loss and quota share reinsurance cover.

Credit spread risk

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

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

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

Equity risk

The Company had no exposure to equity risk during 2021.

Currency risk

The Company had no exposure to currency risk during 2021.

It should be noted that an immaterial amount of currency risk is present within the Highway Insurance Company subsidiary.

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

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

	Impact on profit before tax 2021 £000	**Impact on equity 2021 £000**	Impact on profit before tax 2020 £000	Impact on equity 2020 £000
Interest rate risk				
+ 100 basis points shift in yield curve	**-**	**(55,844)**	-	(55,163)
- 50 basis points shift in yield curve	**-**	**29,597**	-	29,810
Credit spread risk				
100 basis points widening in all credit spreads	**-**	**(51,866)**	-	(55,431)
50 basis points tightening in all credit spreads	**-**	**27,421**	-	29,595

Given that our bonds are entirely held as Available for Sale (AFS), there is no sensitivity to the IFRS P&L to movements in interest rates and credit spreads. Movements would be reflected on the balance sheet within the AFS reserve. The sensitivity to interest rates is broadly similar, with credit spread sensitivity decreasing over the year due to a change in Strategic Asset Allocation where, on average, bond duration has reduced.

There is also sensitivity to interest and credit spread movements on the Solvency II balance sheet, which is why there remains close monitoring of these risks (although on the SII balance sheet there is an off-set with liability movements).

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

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company’s credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at December 31, 2021 was £30,639,000 (2020: £28,573,000), all of which was not rated.

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

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

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

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

	AAA	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Credit risk exposure 2021	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Available for sale financial assets							
- Shares, other variable yield securities and units in unit trusts	-	-	-	-	-	113,117	113,117
- Debt and other fixed income securities	426,453	270,237	183,587	280,499	64,739	-	1,225,515
Loans to related parties*	-	-	-	-	-	47,250	47,250
Cash and cash equivalents	-	-	13,867	-	-	-	13,867
Other receivables	-	30,353	-	-	-	8,396	38,749
Insurance receivables	-	69,357	366	-	-	210,925	280,648
Reinsurance assets	-	566,816	41,731	-	160	224	608,931
Total exposure	**426,453**	**936,763**	**239,551**	**280,499**	**64,899**	**379,912**	**2,328,077**

	AAA	AA	A	BBB	Below BBB	Not rated	Restated Total
Credit risk exposure 2020	£000	£000	£000	£000	£000	£000	£000
Available for sale financial assets							
- Shares, other variable yield securities and units in unit trusts**	-	-	-	-	-	74,590	74,590
- Debt and other fixed income securities	527,289	306,537	173,408	260,737	62,709	-	1,330,680
Loans to related parties*	-	-	-	-	-	63,000	63,000
Cash and cash equivalents	-	-	33,852	-	-	-	33,852
Other receivables	-	20,381	-	-	-	5,873	26,254
Insurance receivables	-	46,460	-	-	-	203,209	249,669
Reinsurance assets	-	240,411	33,462	-	-	15	273,888
Total exposure	527,289	613,789	240,722	260,737	62,709	346,687	2,051,933

* Intergroup loan note is not rated however is backed by a Parental Guarantee

**Shares, other variable yield securities and units in unit trusts were omitted from the prior year credit risk exposure disclosure. The correct position has been restated above. This has no impact on the prior year audited accounts.

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

Offsetting financial assets and financial liabilities
Financial assets and liabilities are offset in the SOFP when the Company intends to apply a current legally enforceable right to offset.

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

An analysis is included of netting arrangements which meet the offsetting criteria within IFRS7 and are set off in the SOFP.

		Amounts off set	
As at December 31, 2021	**Gross assets off set**	**Gross liabilities**	**Net amounts presented**
	£000	**£000**	**£000**
Financial liabilities			
Bank overdrafts	**10,790**	**(12,409)**	**(1,619)**
Total	**10,790**	**(12,409)**	**(1,619)**

		Amounts off set	
As at December 31, 2020	Gross assets off set	Gross liabilities	Net amounts presented
	£000	£000	£000
Financial liabilities			
Bank overdrafts	14,392	(22,875)	(8,483)
Total	14,392	(22,875)	(8,483)

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

The Company reviews the carrying value of its financial assets at each SOFP date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the SOCI. As at December 31, 2021 £185,000 (2020: £93,000) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The table below shows the age analysis of the Company's financial assets, together with the extent to which they are due, overdue and/or impaired.

Age analysis of assets past due/impaired 2021	**<31 days**	**31 to 60 days**	**61 to 90 days**	**>90 days**	**Total past due but not impaired**	**Past due and impaired**	**Neither past due nor impaired**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance receivables	**816**	**98**	**58**	**85**	**1,057**	**185**	**279,406**	**280,648**
Other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**38,749**	**38,749**

Age analysis of assets past due/impaired 2020	<31 days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Neither past due nor impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	356	52	32	77	517	93	249,059	249,669
Other receivables	-	-	-	-	-	-	26,254	26,254

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

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

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

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

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

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

	2021			2020		
	Within 1 year	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
Maturity profile of financial assets	**£000**	**£000**	**£000**	£000	£000	£000
Financial assets						
Available for sale financial assets						
- Shares, other variable yield securities and units in unit trust	**-**	**113,117**	**113,117**	-	74,590	74,590
- Debt securities	**108,305**	**1,117,210**	**1,225,515**	29,243	1,301,437	1,330,680
- Loans to related parties	**-**	**47,250**	**47,250**	-	63,000	63,000
Other receivables	**38,749**	**-**	**38,749**	26,254	-	26,254
Reinsurers' share of claims outstanding	**104,242**	**264,861**	**369,103**	74,554	199,036	273,590
Insurance receivables	**280,648**	**-**	**280,648**	249,669	-	249,669
Accrued interest and income	**23,754**	**-**	**23,754**	22,975	-	22,975
Cash and cash equivalents	**13,867**	**-**	**13,867**	33,852	-	33,852
	569,565	**1,542,438**	**2,112,003**	436,547	1,638,063	2,074,610

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

The table below summarises the maturity profile of the estimated financial liabilities of the Company based on remaining undiscounted (excluding PPO's) obligations:

Maturity profile of financial and insurance liabilities 2021	**Within 1 year £000**	**1-3 years £000**	**3-5 years £000**	**Over 5 years £000**	**Total £000**
Insurance contract liabilities	**340,039**	**292,350**	**164,294**	**176,877**	**973,560**
Insurance payables	**7,057**	**-**	**-**	**-**	**7,057**
Funds withheld to reinsurers'*	**311,481**	**-**	**-**	**-**	**311,481**
Trade and other payables - excluding tax, deferred income and social security costs	**48,806**	**-**	**-**	**-**	**48,806**
	707,383	**292,350**	**164,294**	**176,877**	**1,340,904**

Maturity profile of financial and insurance liabilities 2020	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	327,326	287,569	153,251	159,183	927,329
Insurance payables	14,286	-	-	-	14,286
Trade and other payables - excluding tax and social security costs	86,923	-	-	-	86,923
	428,535	287,569	153,251	159,183	1,028,538

*Funds withheld to reinsurers have all been classified as within 1 year, however due to part of this balance being attributable to claims, a substantial element will not be settled within 1 year. It is not possible to accurately reflect this in the tables above and hence it has been classified as such above.

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

Fair value estimation

The following fair value estimation tables present the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at December 31, 2021.

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

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

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

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

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

Any changes to fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income.

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

		2021				2020		
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Available-for-sale financial assets								
Debt and other fixed income securities	**176,818**	**1,048,697**	**-**	**1,225,515**	31,827	1,298,853	-	1,330,680
Shares, other variable yield securities and units in unit trust	**-**	**107,788**	**5,329**	**113,117**	-	74,590	-	74,590
Total	**176,818**	**1,156,485**	**5,329**	**1,338,632**	31,827	1,373,443	-	1,405,270

Movement in Level 3 Financial Instruments measured at fair value:	**Available for sale**	**Total**
	£000	**£000**
Balance at January 1, 2021	**-**	**-**
Purchases	**5,329**	**5,329**
Balance at December 31, 2021	**5,329**	**5,329**

The valuation is provided quarterly (in arrears) by the Allianz Global Investors Model valuation team using an internal C++ based pricing engine, based on a discounted cash flow model.

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

There were no level 3 financial instruments in 2020.

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

Operational risk

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

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

The Company has not identified any significant operational risks.

Strategic risk

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

The strategic risks of the business are assessed and managed by the business risk committees which then report these and other significant risks to the Allianz Personal Risk and Regulatory Standards Committee (APRRSC), where the risks are reviewed and challenged. The Allianz Holdings Chief Risk Officer reports on a group basis all strategic risks to the Allianz Holdings Board's risk committee.

The Company has not identified any significant strategic risks.

Group risk

Group risk is the risk of contagion incurred from its membership of a group of firms. The Allianz Personal Risk and Regulatory Standards Committee (APRRSC) oversees the management of such risks.

The Company has not identified any significant group risks.

5. Net premium revenue

	2021	2020
	£000	£000
Insurance contracts		
Premiums written	**1,211,419**	1,226,329
Change in unearned premium reserve	**(7,435)**	(2,838)
Premium revenue arising from insurance contracts issued	**1,203,984**	1,223,491
Reinsurance contracts		
Premiums payable	**(755,407)**	(284,239)
Change in unearned premium reserve	**239,530**	(7,830)
Premium revenue ceded to reinsurers on insurance contracts issued	**(515,877)**	(292,069)
Net premium revenue	**688,107**	931,422
Motor	**933,113**	958,036
Property	**171,340**	166,549
Commercial	**14**	-
Other	**99,517**	98,906
Premium Revenue by Line of Business	**1,203,984**	1,223,491

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

6. Investment income

	2021 £000	2020 £000
Available for sale financial assets		
- Interest income	**16,664**	17,831
Fair value through profit or loss assets		
- Investment income from Group Undertakings	**10,000**	21,000
	26,664	38,831

7. Net realised gains on investments

	2021 £000	2020 £000
Gains on available for sale financial assets		
- Debt securities	**1,636**	22,385
	1,636	22,385

On a continuing basis the Company had realised gains on AFS financial assets in 2021 of £1,636,000 (2020: gains £22,385,000). Changes in the fair value of AFS financial assets are reported in the AFS reserve within other comprehensive income.

8. Other income

	2021 £000	2020 £000
Interest Receivable from insurance contracts	**31,032**	31,890
Other Income	**22,634**	27,385
	53,666	59,275

Other income is primarily comprised of fee and commission income.

9. Insurance claims and loss adjustment expenses

	2021	2020
	£000	£000
Gross insurance claims		
Claims paid during the year	**709,359**	690,512
Claims handling costs	**50,984**	45,424
Movement in claims liabilities	**56,836**	10,410
	817,179	746,346
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(266,348)**	(154,300)
Movement in reinsurers' share of claims liabilities	**(96,964)**	(15,287)
	(363,312)	(169,587)
Net insurance claims	**453,867**	576,759

10. Other operating and administrative expenses

	2021	Restated 2020
	£000	£000
Investment management expenses and charges	**2,268**	1,580
Acquisition expenses	**110,678**	105,273
Reinsurance commission*	**(96,335)**	(48,888)
Movement in deferred acquisition costs	**(4,225)**	(1,212)
Amortisation of intangibles	**191**	180
Impairment of insurance receivables	**1,020**	936
Administrative expenses*	**191,793**	201,885
	205,390	259,754

*Reinsurance commission has been presented separately from Administrative expenses for 2021. The prior year comparatives have been restated accordingly.

Movement in deferred acquisition costs in 2021 includes £146,573k of reinsurance ceding commission incurred.

Staff costs were incurred by LVGIG and recharged to the Company. Included within Administrative expenses and Claims handling costs (which are disclosed within Gross Insurance Claims) are staff costs of £155,107,117 (2020: £152,721,913).

11. Discontinued operations

a) Description

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

b) Financial performance and cash flow information

Financial information relating to the discontinued operation for the years to December 31, 2021 and 2020 are presented below.

	2021 **£000**	2020 £000
Net earned premiums	**(3)**	(67)
Net fair value gains on financial assets at fair value through income	**50**	884
Investment income	**816**	1,493
Other income	**-**	65
Net insurance claims	**(2,075)**	60
Expenses	**(71)**	29
(Loss)/Profit before tax	**(1,283)**	2,464
Income tax credit/(expense)	**244**	(467)
(Loss)/Profit after tax of discontinued operation	**(1,039)**	1,997
(Loss)/Profit from discontinued operation	**(1,039)**	1,997

	2021 **£000**	2020 £000
Net Cash (Outflow)/Inflow from operating activities	**(1,283)**	2,464
Net (decrease)/increase in cash generated by Commercial broker	**(1,283)**	2,464

12. Auditors' remuneration

	2021	2020
	£000	£000
Audit of the Company	**408**	427
Audit related assurance services	**91**	91
	499	518

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

13. Directors’ emoluments

	2021	2020
	£000	£000
Emoluments (1)(2)	**3,834**	3,899
Amounts in respect of the highest paid director are:		
Aggregate Emoluments (2)(3)	**1,284**	1,372

(1) Emoluments include £373,959 (2020: £209,099) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE

(2) The emoluments also include £361,167 (2020: £231,167) of payments received during 2021 by the highest paid Director relating to the vesting of Liverpool Victoria General Insurance Group Limited (“LVGIG”) Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £364,550 (2020: £335,667) receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

(3) The highest paid Director was a member of the My LVGIG Savings Plan (a Group Self Invested Personal pension scheme) and during the year employer contributions of £3,484 (2020: £13,938) were made into that scheme in relation to that Director. In 2020, one Director of Fairmead has accrued benefit under the Employer Financed Retirement Benefit Scheme. There are no Directors who are members of the Allianz Retirement Savings Plan (a Group Personal Pension Plan defined contribution scheme).

The Directors of the Company are also directors of fellow Allianz Holdings plc Group companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz Holding plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Director's emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

14. Income tax expense

(a) Income tax recognised in profit or loss

	2021	2020
	£000	£000
Current year tax expense		
In respect of the current year	**16,769**	37,376
In respect of prior years	**(2,487)**	-
Total current tax	**14,282**	37,376
Deferred tax		
In respect of the current year	**121**	-
In respect of prior years	**120**	(13)
Adjustments to deferred tax attributable to changes in tax rates and laws	**521**	149
Total deferred tax charge	**762**	136
Total income tax expense	**15,044**	37,512
Income tax expense/(credit) attributable to:		
Profit from continuing operations	**15,288**	37,045
(Loss)/Profit from discontinued operations	**(244)**	467
	15,044	37,512

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

	2021	2020
	£000	£000
Profit before tax from continuing operations	**110,362**	77,913
(Loss)/Profit before tax from discontinued operations	**(1,283)**	2,464
Profit before tax	**109,079**	80,377
Income tax expense calculated at 19.00% (2020: 19.00%)	**20,725**	15,272
Effect of income not subject to tax	**(1,900)**	(3,898)
Effect of expense not deductible	**-**	26,122
Effect of intangible assets	-	(120)
Effect of imputed transfer pricing adjustments	**(1,934)**	-
Effect of prior year adjustment	**(2,367)**	(13)
Effect of changes in statutory tax rate	**520**	149
Total income tax expense for the year	**15,044**	37,512

(b) Income tax recognised in other comprehensive income

Deferred tax		
- Movement on unrealised gains on bonds	**(8,402)**	3,664
Total income tax recognised in other comprehensive income	**(8,402)**	3,664

15. Intangible assets

	Other £000	Renewal rights £000	Total £000
Cost			
At January 1, 2021	**15,812**	**3,375**	**19,187**
Additions	**-**	**645**	**645**
At December 31, 2021	**15,812**	**4,020**	**19,832**
Accumulated amortisation			
At January 1, 2021	**-**	**(2,295)**	**(2,295)**
Amortisation charge for the year	**-**	**(191)**	**(191)**
At December 31, 2021	**-**	**(2,486)**	**(2,486)**
Net book value at December 31, 2021	**15,812**	**1,534**	**17,346**

	Other £000	Renewal rights £000	Total £000
Cost			
At January 1, 2020	15,812	3,375	19,187
At December 31, 2020	15,812	3,375	19,187
Accumulated amortisation			
At January 1, 2020	-	(2,115)	(2,115)
Amortisation charge for the year	-	(180)	(180)
At December 31, 2020	-	(2,295)	(2,295)
Net book value at December 31, 2020	15,812	1,080	16,892

Impairment testing of intangibles

The Company has considered whether there are any indications of impairment of the intangible assets with a finite useful life at the Statement of Financial position date. No indications of impairment were identified.

Intangibles with an indefinite useful life are not amortised and are reviewed annually for impairment, by comparing the carrying value to its recoverable amount. The recoverable amount is based on value-in-use calculations. The calculations are based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the assets, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect the Directors view of future performance.

Key assumptions used in the impairment testing of intangibles

The recoverable amount of the assets has been determined using cash flow predictions based on financial plans approved by the Directors covering a five year period, with a terminal growth rate of 0.5% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 10.49%. Both the growth rate and the discount rate are consistent with ranges observed in the market place.

16. Deferred acquisition costs

Gross	2021 £000	2020 £000
At January 1	**50,975**	49,763
Acquisition expenses deferred for the year	**110,678**	105,219
Amortisation charge for the year	**(106,453)**	(104,007)
At December 31	**55,200**	50,975

Reinsurance	2021 £000	2020 £000
Acquisition expenses deferred for the year	**146,573**	-
Amortisation charge for the year	**(96,335)**	-
At December 31	**50,238**	-

Net	2021 £000	2020 £000
At January 1	**50,975**	49,763
Acquisition expenses deferred for the year	**(35,895)**	105,219
Amortisation charge for the year	**(10,118)**	(104,007)
At December 31	**4,962**	50,975

In 2021, a new quota share arrangement with Allianz Re was entered into, recognising a funds withheld balance. The new arrangement also resulted in reinsurance deferred acquisition costs for 2021.

17. Investments in Group undertakings

	2021 £000	2020 £000
At January 1	**194,625**	332,112
Impairment of Highway Insurance Group Limited	**-**	(137,487)
Balance at December 31	**194,625**	194,625

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

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

17. Investments in group undertakings (continued)

Key assumptions used in the impairment testing of investments in group undertakings

The impairment test that has been performed relates to the investment by Highway Insurance Group in Highway Insurance Company, which is 100% directly held by the Company.

The recoverable amount (based on value-in-use calculations) of the investments in group undertakings has been determined using cash flow predictions based on financial plans approved by the Company covering a five-year period.

These plans are comprehensively revisited on an annual basis in Q4 of each year, with reforecasts taking place at earlier intervals where these are felt necessary. All key functions in the business are involved in their development, before review and challenge by the Board. The plans assume growth in Gross Written Premium of 10% over the next year where the primary driver of growth is renewal business acquired from Fairmead. Average annual growth in the final 3 years of this 5 year plan is 4%, with a terminal growth rate of 0.5% applied to all cash flows thereafter. The terminal growth rate aligns with Allianz Group methodology and is designed to reflect the current level of economic uncertainty. In undertaking the impairment assessment, management has taken account of the competitive market environment, and the fact the plan assumes the market is not disrupted by competitor behaviour. The plan is on a pre-quota share basis in line with Allianz practise and assumes the Underwriting loss ratio decreases to 66.9% where a key driver is the growth in the Home book acquired from Fairmead, which typically has a lower loss ratio than Motor. The Expense ratio decreases to 29.8%, in part through cost reductions associated with integration with Allianz.

The plan assumes good underwriting results but a modest investment income of c.£5m interest received each year with less reliance placed on investment returns in the current economic climate that has emerged in the wake of the Covid-19 pandemic. These were determined in consultation with our inhouse Investment Management team. The forecast cash flows have been discounted at a pre-tax rate of 10.49%, an increase of 0.61% versus the rate used in 2020. This rate was determined by Allianz, in line with the Cost of Capital requirement for UK operating entities using the Capital Asset Pricing Model. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place. Based on the above assumptions, the recoverable amount exceeded the carrying amount by £6.1m.

Further sensitivity analysis show that the base case discounted cash flows are most sensitive to a change in the expense or loss ratios. Currently, an increase in the expense or loss ratio of 1% would result in a deficit of £19.8m. The cash flows used in the financial plans are also sensitive to changes in the assumed growth over the next 5 years. An increase in the annual growth rate over the next 5 years by 1% increases the surplus to £15.4m.

18. Prepayments and accrued income

	2021 £000	2020 £000
Accrued interest	**15,435**	15,147
Prepayments	**2,424**	2,468
Accrued Income	**8,319**	7,828
	26,178	25,443

19. Financial assets

	2021 £000	2020 £000
Summary		
Available for sale financial assets	**1,338,632**	1,405,270
Loans to related parties	**47,250**	63,000
Total financial assets	**1,385,882**	1,468,270

(a) Available for sale financial assets		
Shares, other variable yield securities and units in unit trusts	**113,117**	74,590
Debt and other fixed income securities	**1,225,515**	1,330,680
Total available for sale financial assets at fair value	**1,338,632**	1,405,270

(b) Loans to related parties		
Loans to related parties	**47,250**	63,000
Total financial assets at fair value through profit or loss	**47,250**	63,000

In December 2020 the Company provided a loan to LVIM another company within the LVGIG Group of £63m. This loan will be repaid over 4 years, up to and including December 31, 2024 and carry interest at the Bank of England base rate +3%. A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. The principle terms of the guarantee are as follows:
- Guarantee fee: The Company will pay Allianz SE an amount of 0.96% of the amount of the outstanding loan facility per annum and in return, Allianz SE will guarantee that it will pay the outstanding loan balance in the event that LVIM cannot meet obligations as they fall due.
- Automatic extension: The guarantee will extend automatically every year for another year (subject to payment of the guarantee fee by the Company) until December 31, 2024, unless it is cancelled by Allianz SE after giving 3 months prior notice.

20. Current tax liability

	2021 £000	2020 £000
Current tax payable at January 1	**24,780**	5,205
Amounts charged to the income statement	**15,044**	37,512
Movements in deferred tax asset in the statement of comprehensive income	**(762)**	(136)
Tax paid during the year	**(20,534)**	(17,801)
Current tax payable at December 31	**18,528**	24,780

Current tax assets and liabilities		
Current tax liabilities	**18,528**	24,780
	18,528	24,780

21. Other receivables

	2021 £000	2020 £000
Amounts due from group undertakings	**1,970**	-
Other receivables	**36,779**	26,254
	38,749	26,254

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

22. Reinsurance assets

	2021 £000	2020 £000
Reinsurers’ share of provision for unearned premiums	**239,828**	298
Reinsurers’ share of claims outstanding	**369,103**	273,590
	608,931	273,888

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

23. Insurance receivables

	2021 £000	2020 £000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	**180,287**	174,636
- Due from agents, brokers and intermediaries	**30,639**	28,573
- Due from reinsurers	**69,722**	46,460
	280,648	249,669

The carrying amounts disclosed above reasonably approximate fair values at year end.

24. Cash and cash equivalents

	2021 £000	2020 £000
Bank balances	**13,867**	33,852
Cash and cash equivalents per Statement of Financial Position	**13,867**	33,852
Non-offsettable Bank overdrafts (see note 29)	**(1,624)**	(8,630)
Cash and cash equivalents per Statement of Cash Flows	**12,243**	25,222

25. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**973,560**	**(369,103)**	**604,457**	927,329	(273,590)	653,739
General insurance unearned premiums	**598,373**	**(239,828)**	**358,545**	590,938	(298)	590,640
	1,571,933	**(608,931)**	**963,002**	1,518,267	(273,888)	1,244,379

b) Movement in general insurance claims liabilities

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**870,787**	**(217,917)**	**652,870**	939,110	(217,105)	722,005
IBNR	**42,189**	**(55,673)**	**(13,484)**	(4,531)	(45,341)	(49,872)
CHP	**14,353**	**-**	**14,353**	-	31	31
Balance at 1 January	**927,329**	**(273,590)**	**653,739**	934,579	(262,415)	672,164
Movement in claims incurred in prior accident years	**(37,508)**	**15,754**	**(21,754)**	(10,559)	(697)	(11,256)
Claims incurred in the current accident year	**804,492**	**(342,111)**	**462,381**	710,690	(151,470)	559,220
Claims paid during the year	**(720,753)**	**230,844**	**(489,909)**	(707,381)	140,992	(566,389)
	46,231	**(95,513)**	**(49,282)**	(7,250)	(11,175)	(18,425)
Balance at 31 December	**973,560**	**(369,103)**	**604,457**	927,329	(273,590)	653,739
OCR	**931,320**	**(322,663)**	**608,657**	870,787	(217,917)	652,870
IBNR	**26,932**	**(46,440)**	**(19,508)**	42,189	(55,673)	(13,484)
CHP	**15,308**	**-**	**15,308**	14,353	-	14,353
Balance at 31 December	**973,560**	**(369,103)**	**604,457**	927,329	(273,590)	653,739

c) Movement in general insurance unearned premiums

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**590,938**	**(298)**	**590,640**	588,100	(8,128)	579,972
Premiums written in the year	**1,211,414**	**(755,405)**	**456,009**	1,226,262	(284,239)	942,023
Premiums earned during the year	**(1,203,979)**	**515,875**	**(688,104)**	(1,223,424)	292,069	(931,355)
Balance at 31 December	**598,373**	**(239,828)**	**358,545**	590,938	(298)	590,640

25. Insurance contract liabilities (continued)

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

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

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

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

The claim types modelled for motor products are:

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

The claim types modelled for household products are:

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

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

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

During 2021, one PPO has expired (a fixed Loss of Earnings case) and one new settlement has been agreed, maintaining the total number of outstanding PPOs at 14. Total PPO reserves are £43.2m (2020: £34.4m) gross and £16.7m (2020: £17.9m) net of reinsurance. The corresponding undiscounted amounts are £75.8m (2020: £68.8m) and £30.9m (2020: £35.1m) net of reinsurance.

26. Deferred tax asset /(liability)

Deferred tax asset

	2021 **£000**	2020 £000
Capital allowances	**5**	5
Fair value of available for sale financial assets	**2,834**	-
Total deferred tax asset	**2,839**	5
Set-off of deferred tax liabilities pursuant to set-off provisions	-	(5)
Net deferred tax asset	**2,839**	-

In March 2021 the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% from the current rate of 19%. This law was substantively enacted on 24 May 2021.

Movements	**Fair value of available for sale financial assets** £000	**Capital allowances** £000	**Total** £000
At January 1, 2020	(1,904)	5	(1,899)
Charged			
- to other comprehensive income	(3,664)	-	(3,664)
At December 31, 2020	(5,568)	5	(5,563)

Movements	**Fair value of available for sale financial assets £000**	**Other £000**	**Total £000**
At January 1, 2021	**(5,568)**	**5**	**(5,563)**
Credited			
- to other comprehensive income	**8,402**	**-**	**8,402**
At December 31, 2021	**2,834**	**5**	**2,839**

26. Deferred tax asset /(liability) (continued)

Deferred tax (liability)

	2021 £000	2020 £000
Fair value of available for sale financial assets	**-**	(5,568)
Intangible assets	**(2,173)**	(1,411)
Total deferred tax liability	**(2,173)**	(6,979)
Set-off of deferred tax liabilities pursuant to set-off provisions	-	5
Net deferred tax liability	**(2,173)**	(6,974)

Movements	**Fair value of available for sale financial assets** £000	**Intangible assets** £000	**Total** £000
At January 1, 2020	-	(1,275)	(1,275)
Charged			
- to profit or loss	-	(136)	(136)
At December 31, 2020	-	(1,411)	(1,411)

Movements	**Fair value of available for sale financial assets £000**	**Intangible assets £000**	**Total £000**
At January 1, 2021	**-**	**(1,411)**	**(1,411)**
Charged			
- to profit or loss	**-**	**(762)**	**(762)**
At December 31, 2021	**-**	**(2,173)**	**(2,173)**

	2021 £000	2020 £000
Deferred tax asset	**2,839**	**-**
Deferred tax liability	**(2,173)**	(6,974)

27. Insurance payables

	2021 £000	2020 £000
Due to reinsurers	**4,881**	13,210
Due to policy holders	**1,262**	1,076
Due to intermediaries	**914**	-
	7,057	14,286

28. Funds withheld to reinsurers

	2021 £000	2020 £000
Deposits received from reinsurers (amounts due to related parties)	**311,481**	-
	311,481	**-**

The deposits received from reinsurers relate to the new quota share arrangement which is now on a funds withheld basis.

29. Trade and other payables

	2021 £000	2020 £000
Bank overdrafts	**1,624**	8,630
Amounts owed to group undertakings	**14,299**	20,402
Accruals and deferred income	**43,117**	44,067
Other taxes and social security costs	**33,098**	32,215
Other payables	**3,495**	824
	95,633	106,138

30. Share capital

	2021 £000	2020 £000
Ordinary shares, allotted and fully paid		
384,907,680 (2020: 384,907,680) ordinary shares of £1 each	**384,908**	384,908

All authorised shares have been issued.

31. Retained earnings

	2021 £000	2020 £000
Balance at January 1	**260,780**	331,284
Profit for the year	**94,035**	42,865
Dividend paid & payable	**(164,000)**	(113,369)
Balance at December 31	**190,815**	260,780

32. Available for sale reserve

	2021 £000	2020 £000
Balance at 1 January	**23,735**	9,295
Change in value of available for sale financial assets	**(38,952)**	42,098
Change in value of available for sale financial assets transferred to profit or loss	**(1,686)**	(23,994)
Income tax on these items	**8,402**	(3,664)
Balance at 31 December	**(8,501)**	23,735

33. Cash generated from operations

	2021 £000	2020 £000
Profit before tax from continuing operations	**110,362**	77,913
(Loss)/Profit before tax from discontinued operations	**(1,283)**	2,464
Profit before tax	**109,079**	80,377
Investment income	**(27,480)**	(40,324)
Interest income received	**(31,032)**	(31,890)
Gains on financial assets recorded in the statement of comprehensive income	**(1,686)**	(23,269)
Non-cash items		
Movement in net expenses/(income) deferred during the year*	**46,013**	(1,212)
Amortisation of intangible assets	**191**	180
Impairment of subsidiary	**-**	137,487
Changes in working capital		
(Increase)/Decrease in other receivables	**(12,495)**	131,197
Increase in reinsurance assets	**(335,043)**	(3,345)
Increase in insurance receivables	**(30,979)**	(3,822)
(Increase)/Decrease in prepayments and accrued income	**(447)**	2,942
Increase/(Decrease) in insurance contract liabilities	**53,666**	(4,412)
(Decrease)/Increase in insurance payables	**(7,229)**	3,108
Increase in funds withheld to reinsurers'	**311,481**	-
Decrease in trade and other payables	**(3,499)**	(34,835)
Cash generated from operating activities	**70,540**	212,182

* This includes movement in both gross and reinsurance deferred acquisition costs.

34. Dividends per share

The following dividends were declared and paid in the year:

- £164,000k dividend payment on ordinary shares – 43p per share (2020: £126,369k – 33p per share)

35. Related party transactions

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

The amount incurred by the Company for the provision of key management personnel services, recharged from the employing entity LVGIG, totaled £1,221k (2020: £1,251k).

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

	2021	2020
	£000	£000
Cost of repairs from LV Repair Services Limited	**135,896**	128,403
Dividend from LV Repair Services Limited	**10,000**	21,000
	145,896	149,403

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

	2021	2020
	£000	£000
Management charge to the Company	**246,521**	200,282
Dividend to Liverpool Victoria General Insurance Group Limited	**(164,000)**	(126,369)
	82,521	73,913

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

	2021	2020
	£000	£000
Management charge to the Company	**14,665**	45,090
	14,665	45,090

Liverpool Victoria General Insurance Group Limited and LV Insurance Management Limited provide management services to the Company.

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

	2021	2020
	£000	£000
Cost of services from LV Assistance Services Limited	**3,804**	3,087
	3,804	3,087

Balances outstanding between the Company and other Group companies:

	2021	2020
	£000	£000
Payable from the Company to group undertakings	**(14,299)**	(20,402)
Payable (from)/to the Company (to)/from the Allianz Group	**(274,776)**	4,145
Payable to the Company from LV Insurance Management Limited	**1,970**	-
	(287,105)	(16,257)

36. Ultimate parent company

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

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

The immediate parent company is registered at the below address:

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

The ultimate parent undertaking, Allianz SE, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member.

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

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

or

Allianz
Königinstrasse 28
D-80802 Munich
Germany