Registered Number: 00096205

Annual Report and Financial Statements 2021

Trafalgar Insurance Limited

Directors:	J M Dye (resigned November 30, 2021)
	C N Dixon (appointed December 1, 2021)
	F K Dyson
	S C McGinn
Company Secretary:	C M Twemlow (appointed February 1, 2021)
	R C Jack-Kee (resigned February 1, 2021)
Registered Office:	57 Ladymead, Guildford, Surrey, GU1 1DB
Registered Company Number:	00096205

Strategic Report

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

Principal activities
Trafalgar Insurance Limited ("the Company") ceased underwriting activity in 2006 and since that date has been actively managing the settlement and run-off of the remaining insurance contract liabilities.

The Company is a member of the Association of British Insurers and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Its activities are covered by the Financial Ombudsman Service. The Company is a member of the Allianz Holdings plc group of companies ("the Group").

Business review
The impact of the Coronavirus disease ('COVID-19') is noted in Principal risks and uncertainties below.

The results for the year are set out in the Statement of Comprehensive Income on page 12. The loss after tax for the year amounted to £43k (2020: £439k profit). The loss for the year arose from costs incurred relating to claims liabilities and other operating costs, and also the decrease in investment income following the sale of all available for sale financial assets in 2020. The Company formerly underwrote motor policies solely for brokers who were shareholders in Broker Direct Plc. The Company ceased underwriting private car business in 2004 and commercial vehicles in 2006. The Company's business operations are now solely in connection with the management of the run-off of the insurance contract liabilities.

Key performance indicators
The financial key performance indicators monitored by the Company are profit before tax and net asset value.

The loss before tax for the year is £53k (2020: £541k profit). At the year end, the Company had net assets of £7,847k (2020: £7,890k) and an MCR coverage ratio of 233% (2020: 223%). The decrease in net assets during the year is a result of the loss incurred.

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

Principal risks and uncertainties
The principal risk facing the Company is insurance risk. The Company's policies in respect of the management of risks and uncertainties are set out in note 16 on page 25.

The COVID-19 pandemic had minimal impact on the way in which the business operated. Through the shared governance of the Group, any operational risk is deemed to be minimal and has been addressed by increasing homeworking capability and reducing non-priority activity. Given the nature of the business in run-off, the financial risk is not significant.

Future outlook
No changes to the principal activity are anticipated in the foreseeable future. The Company will continue to manage the run-off of its insurance contract liabilities.

Strategic Report (continued)

Going concern

The Directors, having undertaken an assessment, are confident in the Company's ability to continue as a going concern and to meet its financial obligations as they fall due. The business is well placed in managing the principal risks and uncertainties, has a strong financial and capital position and is backed by one of the largest property and casualty insurers in the world.

Section 172(1) Companies Act 2006 Statement

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

The Company is a wholly owned subsidiary of Allianz Insurance plc ("AZI"), which is part of the Group. As a result of the governance structure of the Group, strategic decisions and matters which affect the whole Group are considered by the Board of Allianz Holdings plc ("AZH") or its committees to an appropriate extent for the Group as a whole. Certain Group stakeholders and their interests (including customers, employees, community and the environment) are considered at and actions concerning them determined at a Group level by the AZH Board and its committees rather than at a subsidiary board level. Group strategy and stakeholder considerations are understood by the Company's Directors as they are members of the AZH Board and/or its Executive Committee or the Executive Committee of the Allianz Commercial trading division. However, while oversight is carried out at Group level, any decisions put to the Company's Board are considered from the perspective of the Company and its stakeholders, including consideration of the matters set out in section 172 of the Companies Act 2006. The Board met six times during the year to discuss matters relevant to the Company's business.

As the Company's business is now in run-off, the plan is to continue to run-off the Company in line with UK law including Solvency II regulations and within the defined risk appetite. Details of the Company's engagement activities in relation to its stakeholders are detailed below:

Policyholder/Claimants

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

Reinsurers

The Company has the benefit of an excess of loss reinsurance programme backed by highly reputable reinsurers with a strong security rating and the Company is in regular communication with its reinsurers through the Group's experienced team and any significant matters are escalated to the Company's Board as required.

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 AZH Board, its Executive Committee and the Executive Committee of the Allianz Commercial trading division to the extent relevant and taken into account by the Company when considering matters for approval. Where appropriate these deliberations are minuted. Other engagement methods with regulators include regular meetings and more detailed reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. In relation to its regulatory requirements, the Board reviewed and approved its relevant Solvency II reports.

Shareholder

The Company has regard to the interests of the wider Group when making decisions. Engagement is enabled by way of the Board members also being members of the Board of AZH and/or its principal executive committee, the Executive Committee and/or the Executive Committee of the Allianz Commercial trading division.

Community and the environment

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

Employees

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

Strategic Report (continued)

Board decision-making
During the year, the Board considered financial and risk related matters and undertook solvency monitoring including approval of the Company's Annual Report and Financial Statements and approval of its Solvency and Financial Condition Report. It also reviewed its investment strategy on a regular basis. During the year the Board also approved entry into a new Intra-Group Framework Agreement amongst the companies in the Group. The Directors reviewed the agreement and noted that it would support the provision of personnel services provided to the Company and also other services provided by Group companies to the Company as well as outsourced and other services provided to the Company through a contract with one Group company and external suppliers. As a subsidiary in run-off these services were of importance to the Company and would allow the Company to continue to meet the needs of its stakeholders, particularly its ongoing policyholders. The Board considered that the agreement would promote the success of the Company for the benefit of its shareholder and approved entry into the agreement by the Company.

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

By order of the Board

F K Dyson
Director
April 11, 2022

Directors' Report

The Directors present their report and the audited financial statements for the year ended December 31, 2021.

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(1) statement of the Strategic Report on page 2.

Directors
The Directors of the Company who were in office during the year are shown on page 1.

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

Results and dividends
The results for the year are set out in the Strategic Report on page 1.

No interim dividend was paid during the year ended December 31, 2021 (2020: £32,000k). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: £nil).

Future outlook
The future outlook for the Company is outlined in the Strategic Report on page 1.

Going concern
The Directors' going concern assessment has been outlined in the Strategic Report on page 2.

Financial Instruments
The Company's policies in respect of its use of financial instruments are set out in note 16.

Directors' responsibility to the auditors
So far as the Directors are aware there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board

F K Dyson
Director

April 11, 2022

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

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

By order of the Board

F K Dyson
Director
April 11, 2022

Independent auditors' report to the members of Trafalgar Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Trafalgar Insurance Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements 2021 (the "Annual Report"), which comprise: the Balance Sheet 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.

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

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of Insurance Contract Liabilities

Materiality

- Overall materiality: £78.6k (2020: £78.9k) based on 1% of the Net Assets.
- Performance materiality: £58.9k (2020: £59.2k).

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 a reduction in the level of significant social and economic disruption which may impact the financial statements. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of Insurance Contract Liabilities The valuation of Insurance Contract Liabilities is a significant accounting estimate in the financial statements and involves a significant degree of subjectivity and judgement. The company has been in run-off for a number of years, however, retains some Insurance Contract Liabilities in relation to Periodic Payment Orders ("PPOs"). Our primary area of focus this year is the risk that inflation and longevity assumptions in respect of PPOs are inappropriate. This is because there is significant judgement involved in the estimation of such losses, particularly as they require long term assumptions to be made in respect of longevity and inflation. Refer to Note 1 for the accounting policies for Insurance Contract Liabilities, and Notes 2, 13 and 14 for disclosure of the related judgements and estimates.	In performing our audit over the Insurance Contract Liabilities we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Testing the methodologies and assumptions used by the directors to derive their provision for claims reported as at 31 December 2021, and whether these produced reasonable estimates based on the company's facts and circumstances. • Independently estimating the valuation of PPO liabilities using the results of our methodologies and assumptions testing and comparing our estimates to those booked by the directors. In performing the above, we have also tested the following: • The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence; and • The directors' assessment of estimation uncertainty. Based on the work performed and evidence obtained, we consider the value of the Insurance Contract Liabilities 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 line 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	£78.6k (2020: £78.9k).
How we determined it	1% of the Net Assets
Rationale for benchmark applied	We consider net assets as the primary measure used by the shareholders in assessing the insurance run-off activities of the company.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £58.9k (2020: £59.2k) 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 £3.9k (2020: £4.0k) 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 position. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business;
- Considering and testing the underlying relevant data (including but not limited to the cash pooling arrangement with Allianz SE and reinsurance assets) that support the solvency position; 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 the 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 the valuation of Insurance Contract Liabilities and the posting of inappropriate journal entries. 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 fraud;
- Evaluating management's internal controls designed to prevent and detect irregularities;
- Testing significant accounting estimates and judgements such as Insurance Contract Liabilities as included in the key audit matter section above;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- 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 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2018 to 31 December 2021.

Zahid Khan

Zahid Khan (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

	Note	2021 £'000	2020 £'000
Investment income	3	21	401
Net realised gains	10	-	570
Total revenue		21	971
Gross insurance claims paid	13	(226)	(229)
Reinsurers' share of gross insurance claims paid	13	174	192
Gross change in insurance liabilities	13	(7)	(1,006)
Reinsurers' share of gross change in insurance liabilities	13	4	673
Net insurance claims		(55)	(370)
Other operating and administrative expenses		(19)	(60)
Total claims and expenses		(74)	(430)
(Loss)/profit before tax		(53)	541
Income tax credit/(expense)	6(a)	10	(102)
(Loss)/profit for the year wholly attributable to the equity holders		(43)	439
Other comprehensive (expense)/income			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets		-	(339)
Tax on fair value movements	6(b)	-	58
Other comprehensive expense for the year, net of tax		-	(281)
Total comprehensive (expense)/income wholly attributable to the equity holders		(43)	158

The accounting policies and notes on pages 16 to 29 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2021

	Share capital	*Fair value reserve*	*Retained earnings*	*Total equity*
	£'000	*£'000*	*£'000*	*£'000*
Balance as at January 1, 2020	38,000	281	1,451	39,732
Net change in fair value of available for sale financial assets	-	(339)	-	(339)
Tax on fair value movements	-	58	-	58
Net profit for the year	-	-	439	439
Total recognised comprehensive income for the year	-	(281)	439	158
Share capital reduction	(32,000)	-	32,000	-
Dividend paid during the year	-	-	(32,000)	(32,000)
Balance as at December 31, 2020	6,000	-	1,890	7,890
Net loss for the year	-	-	(43)	(43)
Total recognised comprehensive expense for the year	-	-	(43)	(43)
Balance as at December 31, 2021	6,000	-	1,847	7,847

The accounting policies and notes on pages 16 to 29 are an integral part of these financial statements.

Balance Sheet

As at December 31, 2021

	Note	2021 £'000	2020 £'000
Assets			
Reinsurance assets	9	7,284	7,280
Insurance and other receivables	11	9,055	9,059
Cash and cash equivalents		54	54
Total assets		16,393	16,393
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	6,000	6,000
Retained earnings		1,847	1,890
Total equity		7,847	7,890
Liabilities			
Insurance contract liabilities	13	8,312	8,305
Current tax liabilities	6(d)	35	91
Accruals and other liabilities	15	199	107
Total liabilities		8,546	8,503
Total equity and liabilities		16,393	16,393

The accounting policies and notes on pages 16 to 29 are an integral part of these financial statements.

These financial statements on pages 12 to 29 were approved by the Board of Directors on April 6, 2022 and signed on its behalf by:

F K Dyson
Director

Statement of Cash Flows

For the year ended December 31, 2021

	Note	*2021* *£'000*	*2020* *£'000*
Cash flows from operating activities			
Cash generated from/(used in) operations	18	25	(4,558)
Investment income received	3	21	677
Income tax paid	6(c)	(46)	(69)
Net cash outflow from operating activities		-	(3,950)
Cash flows from investing activities			
Purchase of available for sale financial assets		-	(5,358)
Proceeds from sale of available for sale financial assets		-	41,267
Net cash inflow from investing activities		-	35,909
Cash flows from financing activities			
Dividend paid		-	(32,000)
Net cash outflow from financing activities		-	(32,000)
Net decrease in cash and cash equivalents		-	(41)
Cash and cash equivalents at the beginning of the year		54	95
Cash and cash equivalents at the end of the year		54	54

The accounting policies and notes on pages 16 to 29 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2021

1. ACCOUNTING POLICIES

1.1. Company and its operations

The Company is a private limited company incorporated in England and Wales and domiciled in the United Kingdom.

1.2. Statement of compliance

The financial statements of the Company have been prepared and approved by the Directors in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

1.3. Basis of preparation

The financial statements have been prepared on the historical cost basis. The functional and presentational currency is British Pounds. The accounting policies have been applied consistently, other than where new policies have been adopted.

Going concern

These financial statements have been prepared on a going concern basis. For more information on the going concern assessment please refer to the Strategic Report on page 1.

UK-adopted international accounting standards

On December 31, 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. Trafalgar Insurance Limited transitioned to UK-adopted International Accounting Standards in its company 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 Trafalgar Insurance 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.

New standards and interpretations adopted by the Company

There are no new standards and interpretations affecting the Company that are mandatorily effective from January 1, 2021.

New standards and interpretations not yet adopted by the Company

A number of new standards and interpretations which are not mandatorily effective have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of UKEB endorsement. The Company is still reviewing the upcoming standards to determine their impact:

- IFRS 17 Insurance Contracts – In May 2017 the International Accounting Standards Board ("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 completed in 2022 to ensure compliance with the standard.

- 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. The Company, based on the impact assessment performed under the One.Finance project, 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 1 January 2018) until 1 January 2023 which will coincide with the expected implementation of IFRS 17.

Notes to the Financial Statements

For the year ended December 31, 2021

1. ACCOUNTING POLICIES (continued)

1.3. Basis of preparation (continued)

In order to qualify for the temporary exemption an entity has to prove that its activities are predominantly connected to insurance as of December 31, 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities within the scope of IFRS 4 relative to the total carrying amount of all liabilities is greater than 90%. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the Company's activities during the annual period that ended on that date.

As of December 31, 2015, the Company's total carrying amount of liabilities connected with insurance amounted to £8,228k which represented more than 90% of its total liabilities of £8,543k. No change in the activities of the Company has occurred subsequently that would have required a reassessment.

1.4. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out in the following paragraphs.

(a) Income taxes

Income tax on the profit or loss comprises current tax and deferred tax. Income tax is recognised in the Statement of Comprehensive Income.

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

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

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

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

(b) Reinsurance assets

The Company cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably

Notes to the Financial Statements

For the year ended December 31, 2021

1. ACCOUNTING POLICIES (continued)

1.4. Summary of significant accounting policies (continued)

(c) Financial assets

The Company classifies its investments as available for sale financial assets.

All purchases of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the assets. All sales of financial assets are recognised on the statement date i.e. the date the assets are delivered to the counterparty.

All investments are initially recognised at fair value plus 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.

Available for sale financial assets, 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.

Impairments

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has either fallen significantly below cost price or been below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the long term investment strategy of the Company.

For available for sale assets, a significant prolonged decline in the fair value indicates an impairment. For available for sale financial assets the impairment loss is the difference between its current fair value and its original cost.

(d) Fair value reserve

The fair value reserve relates to cumulative changes in the fair value of available for sale financial assets until the investment is derecognised or the investment is determined to be impaired.

(e) Insurance receivables

The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Comprehensive Income.

(f) Other receivables

Other receivables (including prepayments and accrued income) are initially recognised and subsequently measured at amortised cost after taking into account any impairment losses. Other receivables shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

(g) 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 at the date of placement, free of any encumbrances.

(h) Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Notes to the Financial Statements

For the year ended December 31, 2021

1. ACCOUNTING POLICIES (continued)

1.4. Summary of significant accounting policies (continued)

(i) Insurance contract liabilities

Insurance contract liabilities are based on the estimated ultimate costs of all claims incurred but not settled at the Balance Sheet date, whether reported or not, together with related claims handling costs. Significant delays can be experienced in the notification and settlement of certain types of claims, the ultimate cost of which cannot be known with certainty at the Balance Sheet date.

(j) Accruals and other liabilities

Accruals and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are initially recognised and subsequently measured at cost because they are expected to be settled within twelve months and their carrying value is a reasonable approximation of fair value.

(k) Revenue recognition

Investment income

Investment income is recognised in the Statement of Comprehensive Income as it accrues.

Net realised gains/(losses)

Realised gains and losses on the sale of available for sale financial assets 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 when the sale transaction occurred.

(l) Claims incurred

Claims incurred include all losses occurring during the year, whether reported or not, including the related handling costs and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

The 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.

Valuation of general insurance contract liabilities

For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Balance Sheet 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. 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 Statement of Comprehensive Income in future years.

The annuity type structure of Periodic Payment Orders (“PPOs”) claim payments means that these have to be projected over a long period and reserved for on a discounted basis accordingly.

Notes to the Financial Statements

For the year ended December 31, 2021

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

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 the Balance Sheet date and the cost of claims incurred but not yet reported. The Company has been in run-off since 2007 and no newly reported claims are expected. 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.

The main source of uncertainty is the two PPO claims which are projected over a long time period and are sensitive to assumed future inflation.

Significant judgement applied to estimate

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

The estimation of the PPO claims is based on a discounted cashflow approach with assumptions required around claimant life expectancy and future inflation.

The carrying value at Balance Sheet date for these general insurance contracts is £8,312k (2020: £8,305k).

3. INVESTMENT INCOME

	2021	*2020*
	£'000	*£'000*
Interest income	21	401

4. EMPLOYEE RELATED COSTS

The Company has no employees and as such incurs no employee related costs.

5. AUDITORS' REMUNERATION

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by AMS. Other services supplied pursuant to legislation were £nil (2020: £nil).

	2021	*2020*
	£'000	*£'000*
Fees payable for the audit of the Company's financial statements	39	19

Notes to the Financial Statements

For the year ended December 31, 2021

6. INCOME TAX (CREDIT)/EXPENSE

	2021	*2020*
(a) Income tax recognised in profit or loss	*£'000*	*£'000*
Current tax:		
In respect of the current year	(10)	91
Total current tax	(10)	91
Deferred tax:		
In respect of the current year	-	12
In respect of the prior years	-	(1)
Total deferred tax	-	11
Total income tax (credit)/expense recognised in the current year	(10)	102

The income tax (credit)/expense for the year can be reconciled to the accounting (loss)/profit as follows:

	2021	*2020*
	£'000	*£'000*
(Loss)/profit before tax	(53)	541
Income tax (credit)/expense calculated at 19% (2020: 19%)	(10)	103
Effect of prior year adjustment	-	(1)
Income tax (credit)/expense recognised in profit or loss	(10)	102

The tax rate used for the 2021 and 2020 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax is currently 19%, changing to 25% with effect from 1 April 2023.

	2021	*2020*
(b) Income tax recognised in other comprehensive income	*£'000*	*£'000*
Deferred tax	-	(58)
Total income tax recognised in other comprehensive income	-	(58)

	2021	*2020*
(c) Tax paid for cash flow purposes	*£'000*	*£'000*
Current tax payable at January 1	91	69
Amounts (credited)/charged to the statement of comprehensive income	(10)	102
Movements in deferred tax asset in the statement of comprehensive income	-	(11)
Tax paid during the year	(46)	(69)
Current tax payable at December 31	35	91

Notes to the Financial Statements

For the year ended December 31, 2021

6. INCOME TAX (CREDIT)/EXPENSE (continued)

	2021	2020
(d) Current tax liabilities	*£'000*	*£'000*
Current tax liabilities	35	91

7. DIRECTORS' EMOLUMENTS

The remuneration of J M Dye, F K Dyson, S C McGinn and C N Dixon is paid by Allianz Management Services Limited ('AMS'). AMS is a subsidiary of AZH and a Group services company and makes no recharge to the Company for such costs. The aforementioned individuals provide services to AZH and a number of its subsidiaries including the Company, and it is not possible to make an accurate apportionment of an individual's remuneration in respect of their role as a Director of the Company. Accordingly, no remuneration is being disclosed for such individuals.

8. DIVIDENDS

No interim dividend was paid during the year ended December 31, 2021 (2020: £32,000k). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: £nil).

9. REINSURANCE ASSETS

	2021	2020
	£'000	*£'000*
Reinsurers' share of insurance contract liabilities	7,284	7,280

The amounts disclosed above are a reasonable approximation for fair value at year end. For the current and non-current split, please refer to note 13.

10. AVAILABLE FOR SALE FINANCIAL ASSETS

During 2020, the Company sold its available for sale financial assets resulting in realised gains of £577k and realised losses of £7k. There were no available for sale financial assets recognised in 2021.

11. INSURANCE AND OTHER RECEIVABLES

	2021	2020
	£'000	*£'000*
Due from reinsurers	103	175
Amounts due from related parties(1)	8,940	8,884
Other receivables	12	-
Total insurance and other receivables	9,055	9,059

(1) Included in this amount is £8,690k (2020: £8,880k) due from the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

The carrying amounts disclosed above reasonably approximate fair values at year end. All of the Company's insurance and other receivables are due within 12 months of the Balance Sheet date.

Notes to the Financial Statements

For the year ended December 31, 2021

12. SHARE CAPITAL

	2021	*2020*
	£	*£*
Ordinary shares of £1 each authorised, issued and fully paid at January 1	6,000,000	38,000,000
Share capital reduction	-	32,000,000
Ordinary shares of £1 each authorised, issued and fully paid at December 31	6,000,000	6,000,000

The Company approved a capital reduction, effective on November 20, 2020, whereby 32,000,000 ordinary shares of £1 each were cancelled and extinguished. The amount cancelled was returned to the Company's parent through an immediate dividend payment.

13. INSURANCE CONTRACT LIABILITIES

	2021			2020		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Provision for claims reported by policyholders	8,312	(7,284)	1,028	8,305	(7,280)	1,025
Current general insurance contract liabilities	221	(202)	19	206	(194)	12
Non-current general insurance contract liabilities	8,091	(7,082)	1,009	8,099	(7,086)	1,013

The provision for claims reported by policyholders may be analysed as follows:

	2021			2020		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At January 1	8,305	(7,280)	1,025	7,299	(6,607)	692
Unwind of discount	-	-	-	190	(171)	19
Movement on claims incurred in prior accident years	233	(178)	55	1,045	(694)	351
Claims paid during the year	(226)	174	(52)	(229)	192	(37)
At December 31	8,312	(7,284)	1,028	8,305	(7,280)	1,025

Notes to the Financial Statements

For the year ended December 31, 2021

14. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

The Company formerly underwrote motor policies, ceasing private car business in 2004 and commercial vehicles in 2006. As a result, there is no exposure in 2007 or later years. Claims provisions are established to cover the ultimate costs of settling the liabilities in respect of claims that have occurred. The claims provision is determined on a case by case basis. No IBNR is required in respect of newly reported claims at this late stage of run-off. The claim experience is reviewed quarterly to ensure that there are no unexpected developments.

Outstanding claims provisions associated with the settlement of high value personal injury claims by way of PPOs established under the Courts Act 2003 are discounted for the time value of money. PPO reserves are £8,307k (2020: £8,300k) gross and £1,023k (2020: £1,020k) net of reinsurance. No new claims were reported in 2021 and the provision for non-periodical payments order claims is materially nil. Whilst outstanding claims provisions for PPO claims are discounted for the time value of money, a discount rate of 0% is assumed as the assets are held as cash. The discounted and undiscounted outstanding claims provisions are therefore the same. The PPO outstanding claims provisions are sensitive to two main sources of uncertainty, inflation and life expectancy:

- An increase of inflation rate by 1% would increase the discounted PPO reserves by £1,515k gross and £409k net (2020: £1,573k gross and £429k net), an increase of inflation rate by 3% would increase the discounted PPO reserves by £5,740k gross and £1,558k net (2020: £5,676k gross and £1,603k net)
- A decrease of inflation rate by 1% would decrease the discounted PPO reserves by £1,229k gross and £332k net (2020: £1,269k gross and £346k net), a decrease of inflation rate by 3% would decrease the discounted PPO reserves by £3,044k gross and £822k net (2020: £3,446k gross and £888k net)
- An increase in life expectancy of 4 years would increase the discounted PPO reserves by £1,946k gross and £254k net (2020: £1,967k gross and £256k net)
- An decrease in life expectancy of 4 years would decrease the discounted PPO reserves by £1,932k gross and £245k net (2020: £1,696k gross and £221k net)

Loss development triangle

The total gross liability reserve as per the Balance Sheet in respect of accident years prior to 2021 is £8,312k (2020: £8,305k).

The total net liability reserve as per the Balance Sheet in respect of accident years prior to 2021 is £1,028k (2020: £1,025k).

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

Whilst the information provides a historical perspective on the adequacy of the unpaid claims estimates established on previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding as at the end of 2021 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be sufficient.

15. ACCRUALS AND OTHER LIABILITIES

	2021	*2020*
	£'000	*£'000*
Other liabilities	-	20
Amounts due to related parties	199	87
Total insurance and other receivables	199	107

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

Notes to the Financial Statements

For the year ended December 31, 2021

16. RISK MANAGEMENT POLICIES

Capital management

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

Insurance risk

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

To provide protection to the Company, reinsurance is purchased. Reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full. Members of the Allianz SE Group of companies are the Company's largest reinsurers.

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

Financial risk

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

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rates and equity prices will affect the value of the Company's assets and income.

(i) Interest rate risk

Interest rate risk is the risk that interest rates will change, adversely affecting the market value of the assets that the Company has available to meet insurance contract liabilities. None of the Company's general insurance contracts include benefits which involve contractual interest payments.

Interest rate risk is generated primarily by the long duration of the remaining PPOs. At December 31, 2021 the average duration of the asset portfolio was 1 day (2020; 1 day), compared with the mean duration of the insurance contract liabilities which is estimated to be 16.5 years (2020: 17.2 years).

Notes to the Financial Statements

For the year ended December 31, 2021

16. RISK MANAGEMENT POLICIES (continued)

(a) Market risk (continued)

The table below provides a sensitivity analysis of the potential net impact of a change in interest and inflation rates and has been calculated as the direct impact of a permanent change in the rates with all other factors remaining unchanged. These sensitivities are net of reinsurance, exclude the impact of taxation, reflect one-off impacts and should not be interpreted as predictions.

	Increase/(decrease) in profit before tax	
	2021	*2020*
	£'000	*£'000*
Impact of a decrease in the interest rate of 1%	-	-
Impact of an increase in the interest rate of 1%	-	-
Impact of a decrease in the inflation rate of 1%	332	346
Impact of an increase in the inflation rate of 1%	(409)	(429)

ii) Equity risk
Equity risk is the risk of a reduction in the value of equity holdings. There is no equity risk to the company as no equities are held.

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

Analysis of the sensitivity of profit or loss before tax and total equity to changes in the assumptions used to measure general insurance contract provisions and reinsurance assets at the reporting date has not been disclosed as there have been no significant premiums or claims in the last three years.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due.

The Company is exposed to credit risk through its reinsurance assets, cash and cash equivalents and insurance and other receivables.

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

The Company considers the risk associated with the reinsurance assets and insurance receivables to be low as these amounts are due from regulated insurers under reinsurance contracts. Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. The largest counterparty risk at December 31, 2021 was £3,754k (2020: £2,344k).

The Company deems the risk associated with its other receivables to be low as the balance is almost entirely due from Allianz SE and as such is "AA" rated. The Company deems the risk associated with its cash and cash equivalents to be low as the balance is held with an A rated financial institution.

Notes to the Financial Statements

For the year ended December 31, 2021

16. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

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

	AAA	*AA*	*A*	*Not rated*	*Total*
2021	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Reinsurance assets	-	7,284	-	-	7,284
Insurance receivables	-	61	-	42	103
Other receivables	-	8,940	-	12	8,952
Cash and cash equivalents	-	-	54	-	54
Total	-	16,285	54	54	16,393
Percent	-	99.4	0.3	0.3	100.0

	AAA	*AA*	*A*	*Not rated*	*Total*
2020	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Reinsurance assets	-	6,632	474	174	7,280
Insurance receivables	-	160	11	4	175
Other receivables	-	8,884	-	-	8,884
Cash and cash equivalents	-	-	54	-	54
Total	-	15,676	539	178	16,393
Percent	-	95.6	3.3	1.1	100.0

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no financial assets or cash and cash equivalents that are impaired.

	2021		*2020*	
	Reinsurance assets	*Insurance receivables*	*Reinsurance assets*	*Insurance receivables*
	£'000	*£'000*	*£'000*	*£'000*
Neither past due nor impaired	7,284	103	7,280	175

(c) Liquidity risk

Liquidity risk is the risk that cash is not available to settle obligations when they fall due. The Company is exposed to liquidity risk through its insurance contract liabilities. The Company has sufficient liquid assets to meet obligations as they fall due. The other receivables along with cash and cash equivalents are readily realisable. As a result, the Company's exposure to liquidity risk is low and in the risk capital model used by the Company no capital is allocated to this risk.

The following tables show information about the estimated timing of the undiscounted cashflows from the Company's insurance contract liabilities. The analysis provided is by estimating timings of the amounts recognised in the Balance Sheet.

Notes to the Financial Statements

For the year ended December 31, 2021

16. RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

Insurance contract liabilities	*Carrying amount*	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
2021	8,312	221	220	688	1,242	5,941
2020	8,305	206	211	659	1,193	6,036

The Company holds £8,690k (2020: £8,880k) in a cash pool with Allianz SE which is immediately available to settle obligations when they fall due.

Accruals and other payables are payable within 12 months of the Balance Sheet date.

(d) Operational risk

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

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

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

(e) Capital management

The Company maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value. The Company is regulated in respect of prudential requirements (including capitalisation) by the PRA. The Company aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of one of a series of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above Solvency Capital Requirement ("SCR") to ensure that the company is adequately capitalised.

The Company's capital comprises total shareholders' equity and amounts to £7,847k (2020: £7,890k). The Company has complied with all externally and internally imposed capital requirements throughout the year.
At December 31, 2021 own funds amount to £7,429k with a surplus of 493% on SCR (2020: own funds amount to £7,543k with a surplus of 558% on SCR).

17. ULTIMATE PARENT UNDERTAKING

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

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

Copies of the Allianz SE Group financial statements are available on request from Allianz SE, Königinstrasse 28, 80802 Munich, Germany.

Notes to the Financial Statements

For the year ended December 31, 2021

18. CASH FLOWS FROM OPERATING ACTIVITIES

		2021	2020
	Note	*£'000*	*£'000*
Net (loss)/profit before tax		(53)	541
Investment income	3	(21)	(677)
Adjusted for non cash items:			
Net realised gains from sale of available for sale financial assets		-	(570)
Amortisation of available for sale financial assets		-	276
Changes in working capital			
Decrease in prepayments and accrued income		-	370
Increase in reinsurance assets	9	(4)	(673)
Decrease/(increase) in insurance and other receivables	11	4	(4,879)
Increase in insurance contract liabilities	13	7	1,006
Increase in accruals and other liabilities	15	92	48
Cash generated from/(used in) operations		25	(4,558)

19. RELATED PARTY TRANSACTIONS

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

	2021	2020
	£'000	*£'000*
Administrative and claims handling service fees	39	82
Reinsurers' share of gross insurance claims paid	140	90
Amounts transferred (from)/to cash pool	(189)	4,767
Dividend paid	-	32,000

Year end balances arising from transactions carried out with fellow Group undertakings are as follows:

	2021	2020
Due from related parties at December 31	*£'000*	*£'000*
Parent	181	4
Other related parties	8,759	8,895
Total	8,940	8,899
Due to related parties at December 31		
Other related parties	199	87
Total	199	87

The Company considers its key management personnel to be the Directors only. No charge was incurred by the Company for the services of key management personnel provided by a separate management entity within the Group. Further information is disclosed in note 7.

20. SUBSEQUENT EVENTS

There have been no subsequent events after the Balance Sheet date.