Company registration number 00423930

# FAIRMEAD INSURANCE LIMITED
# ANNUAL REPORT AND FINANCIAL STATEMENTS

## 2022

## for the nine month period ended 30 September

**Fairmead Insurance Limited**

**Contents**




**Registered office**

57 Ladymead, Guildford
Surrey GU1 1DB

Registered in England and Wales No. 00423930

**Fairmead Insurance Limited**

**Strategic Report**

For the nine month period ended 30 September 2022

The Directors present their Strategic Report for the nine month period ended 30 September 2022.

**Principal activities**

Fairmead Insurance Limited (the 'Company') is a private limited company authorised in the UK by the Prudential Regulation Authority ('PRA'), and regulated by the Financial Conduct Authority ('FCA') and the PRA. The principal activity of the Company is the transaction of general insurance business in the personal sector marketplace, specifically relating to risk covers for household. The Company has continued its plans for migration of this household business and, with the exception of a specific contract with a Managing General Agent ('MGA'), all household business is in run off. The last insurance policy falling under the contract with the MGA is due to expire by 1 April 2024 and the Company will write no further policies after 31 March 2023. The Company has previously underwritten risks relating to short term income protection and pet insurance but these products are now in run-off.

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

**Change of accounting reference date - from 31 December to 30 September**

The Directors changed the accounting reference date of the Company to 30 September, shortening the financial period to which these accounts relate to be the nine months ended 30 September 2022.

The strategic projects being undertaken by the Company to decommission and archive key systems are reaching a critical stage during the fourth calendar quarter of 2022 as part of its continued integration into the wider Allianz group and exit of an outsourcing arrangement with its former parent group, Legal & General Group plc. The accounting reference date of the Company was shortened to mitigate the potential risks this decommissioning and archiving programme could pose to the preparation and financial reporting around 31 December 2022.

The statement of comprehensive income and related notes are presented for the nine month period ended 30 September 2022 whereas the comparative is for the twelve month period ended 31 December 2021. The Statement of Financial Position and related notes are presented as at 30 September 2022 with the comparative being as at 31 December 2021.

***Overview***

Gross Written Premium ('GWP') for the nine month period ended 30 September 2022 was £100,135k (year ended 31 December 2021: £310,199k). The Company stopped underwriting household business in May 2022 with the exception of a specific book of business with a managing general agent ('MGA'), having previously completed a transfer of renewal rights for its Pet and Accident, Sickness and Unemployment ('ASU') books in 2021.

The loss after taxation for the nine month period ended 30 September 2022 is £11,568k (year ended 31 December 2021: £9,787k) driven by inflationary impacts on prior periods claims development and current period performance.

The Company successfully completed the migration of Broker, Pet and Direct businesses to Liverpool Victoria Insurance Company Limited ('LVIC') and Allianz Insurance plc, and its intermediary household book of business has been migrated with remaining policies due to expire by May 2023. The Company stopped underwriting household business in May 2022 with the exception of a specific book of business with an MGA.

The Company successfully transferred all their ASU policies after its sale to a co-insurance provider and a third party in 2021. The claims handling for the Company's ASU book in run-off has been delegated to Wessex Business Services Limited, trading as Wessex Insurance Services ('Wessex').

***Covid-19 pandemic***

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

The Company continues to review and align with Group health and safety measures to ensure employees feel comfortable to return to the office. After the lifting of government restrictions, a hybrid working model has been adopted, allowing some employees to continue to work fully remotely whilst encouraging the use of office facilities where beneficial.

**Fairmead Insurance Limited**
**Strategic Report**
For the nine month period ended 30 September 2022

**Reinsurance**
The Company has a catastrophe treaty in place which is a joint treaty that covers the whole of LVGIG. This treaty provides protection to Liverpool Victoria Insurance Company Ltd ('LVIC'), Highway Insurance Company Ltd ('HICO') and the Company. Under this treaty all catastrophe losses in LVGIG are combined and ceded to the treaty. The joint catastrophe treaty will be renewed for the 2023 calendar year on 1 January 2023 to cover the run-off of the business.

The Company has a 100% quota share arrangement transferring all economic risk in respect of specific books of MGA household policies effective from 31 December 2019. This treaty acts before the joint catastrophe treaty.

The Company continued to have a quota share reinsurance arrangement in place during the period. During the period the quota share ceded 50% of premiums and claims and the Company received a contribution of 39.1% (2021: 31.5%) of ceded earned premiums against incurred expenses and commission with an Allianz SE group reinsurance company (note 34). The quota share has the benefit of improving the Company's solvency position by reducing the capital the Company is required to hold. There has been a change to the 50% quota share from 1 January 2022 whereby the new contract is now on a funds withheld basis whereas previously the contract was on a funds transferred basis. Under a funds withheld basis the reinsurer's share of the unearned premium reserve ('UPR'), deferred commission and the claims reserve is withheld and shown as a Deposits received from reinsurers (liability) on the Statement of Financial Position. Previously, under a funds transferred basis these funds would have been transferred to the reinsurer. Each month the Deposit received from reinsurers is updated with the latest UPR, deferred commission and claims reserve pertaining to the treaty. This deposit will unwind as the treaty earns through and claims are settled. Moving to a funds withheld basis helps reduce counterparty default risk from the quota share reinsurer and also ensures the quota share structure is consistent with other entities' quota share agreements in the Group. It is anticipated the Company will maintain a comparable quota share arrangement throughout the run off of the business until the date of the Part VII.

***Integration of operations***
The Company has continued to place an emphasis on the integration of the Company's business operations into the wider LVGIG and AZH Group. During the period, the Company completed the migration of the Broker, Pet and part of the Direct household books, and with the exception of a specific household product contract with an MGA, all product lines were in run off by the second quarter of 2022. The Company has entered into a delegated authority arrangement with LVIC during the period for the management of household claims. This arrangement was in respect of new claims only until the migration of the back book of claims to this arrangement which took place in November 2022. The archiving and decommissioning of systems in the transition away from the current platforms provided by the Legal & General group through an outsourcing arrangement have continued to be a key focus in 2022 with the exit from that arrangement planned for 31 December 2022.

The Directors have commenced a project to complete a transfer of general insurance liabilities under Part VII of the Financial Services & Markets Act 2000 ('Part VII') from the Company to a sister Company in the wider Group subject always to regulatory and Court approvals. It is intended that as part of the Part VII, and all associated activities, the Company will no longer have any trade, and therefore should the Part VII be sanctioned by the Court and approved by the regulators, the Directors are intending to take subsequent actions to dissolve the Company.

The Company has considered all additional legal and liquidation costs which may result from wind down and Part VII transfer of the Company's insurance business. To the extent that any Part VII and associated wind down costs exceed the costs already allowed for by the Company, these will be borne by other group Companies.

**Investment strategy**
The investment strategy of the Company has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. The Company invests in assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of its insurance liabilities. The Company's investment portfolios are now in run off and the Company's account has been put into care and maintenance with the investment manager PIMCO Europe Ltd ('PIMCO') while the portfolios gradually reduce.

**Result for the period and dividend**
The results of the Company show a pre-taxation loss for the nine month period ended 30 September 2022 of £14,567k (year ended 31 December 2021: £14,041k), details of which are set out on page 21.

An interim dividend of £55,000k was paid during the financial period ended 30 September 2022 (2021: £nil). The Company undertook a capital reduction transferring £96,053k from its share premium account to distributable reserves to facilitate the payment of this dividend.

### Financial key performance indicators

In addition to the pre-taxation performance noted above, other key financial measures monitored by the Board include Shareholders funds as it reflects the stability and the overall position and of the Company, GWP as it reflects on the Company's ability to attract new and retain existing customers; whilst the Combined Operating Ratio ('COR') reflects the profitability of the policies. These key performance indicators are as follows (2022 figures relate to the nine months ended 30 September 2022 and 2021 figures relate to the year ended 31 December 2021):

| | 2022 | 2021 | Commentary |
|---|---|---|---|
| Period end shareholders funds (£`000) | 72,274 | 145,233 | The decrease in shareholders funds is due to the payment of £55,000k dividend as well as losses incurred in the period. |
| Gross written premium (£`000) | 100,135 | 310,199 | The Company stopped underwriting household business in May 2022 with the exception of a specific book of business with an MGA, having previously completed a transfer of renewal rights for its Pet and Accident, Sickness and Unemployment ('ASU') books in 2021. |
| Combined operating ratio ('COR') | 137% | 113% | The COR increased in 2022 due to the continued migration of the business and ongoing operational costs; the remaining book of business with the MGA which continues to be underwritten being subject to a 100% quota share reinsurance arrangement. Furthermore, claims costs faced inflationary pressures caused by the international economic climate and supply chain issues. |

The COR is defined as: $\dfrac{\text{Total technical charges (excluding investment management expenses)}}{\text{Net Premiums Earned}}$

### Other key performance indicators

The Board also monitor a number of non-financial key performance measures. These other key performance indicators include the following (2022 figures relate to the nine months ended 30 September 2022 and 2021 figures relate to the year ended 31 December 2021):

| | 2022 | 2021 | Commentary |
|---|---|---|---|
| Gross inforce policies | 604,924 | 1,190,844 | The decrease is in line with the migration of business. |
| Average monthly reportable complaints (% of inforce policies) | 0.048% | 0.062% | The decrease is due to improvements in service driven primarily by systems thinking and stabilisation of service performance. This has also led to improvements in the speed of resolution of complaints raised. |

### Principal risks and uncertainties

The Company's business involves the management of insurance, market, credit, liquidity and operational risks. The process is managed through a risk framework, comprising formal committees, risk assessment processes and review functions with formal updates to the Board. A full review of the wider risk environment and risk management process is discussed in note 36.

### Weather Catastrophe Events

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

### Climate Change

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

### Market and Economic Conditions

2022 experienced above average claims inflation. Whilst the Company has allowed for this in its reserves and is now in run off, with the exception of an MGA household book which is subject to a 100% quota share arrangement, further increases in the cost of building materials above expected levels could have a material impact on future claims costs.

**Market and Economic Conditions (continued)**

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

During 2022 there have been various external factors which have caused market and economic volatility across the globe. The conflict in Ukraine and the product supply issues caused from the COVID pandemic have both played significant factors in rising inflation. Governments have tried to counteract the rising inflation by increasing interest rates however market uncertainty across the globe still persists. These factors have led to the Company's investment portfolio producing negative returns during 2022, driven by the increases in interest rates and credit spreads which both result in bond prices going down. The impact of the ongoing conflict in Ukraine is considered in the Directors' report on page 11.

**Credit risk**

Reinsurer credit risk and Investment counterparty risk pose the largest credit risk exposures to the Company. Reinsurance credit risk is mitigated through a requirement that all reinsurers have S&P ratings of A- or better or AM Best rating of A- or better and who are approved by the Allianz SE Group Risk Security Vetting Team for the type of business being reinsured. Investment counterparty risk is managed by having a well-diversified portfolio and the majority of the bond investments being of investment grade.

**People**

The Company, as part of the Group, actively focuses on retaining the best personnel and ensuring that key person dependencies do not arise through employee training and development programmes, remuneration strategies, including retention payments to help retain key staff until agreed leaving dates, and succession planning. However, the loss of key personnel may impact earnings in the short term. The migration of the business has resulted in a number of the staff who supported the Company's operations transferring to support the wider LVGIG and Group businesses, whereas others have left the business or will do so at the end of 2022 due to redundancy and a small number later in H1 2023. The Group has been able to support throughout the period individuals at risk of redundancy with outplacement support and redeployment opportunities.

**Regulation and Legislation**

There are a number of aspects to the way in which legislation and regulation impacts the Company's business:

- Government fiscal policy;
- Regulation of product design, marketing, sales and administration; and
- Solvency II and its impact on capital requirements and business risk management.

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

Specifically, the new FCA regulation around renewal pricing practices for the general insurance market became effective from 1 January 2022. The Company completed reviews required under the new product governance rules ahead of the 30 September 2022 deadline.

**Outsourcing and Key Supplier Risk**

There are some core Company functions that are outsourced and a reliance on suppliers to satisfy buildings and contents claims. This involves the Company managing a number of customer related third party relationships. Despite the rigorous selection process including supplier financial evaluations and the preparation of contingency plans to maintain service levels, the financial failure of a third party or provision of inadequate service could impact the reputation and regulatory compliance of the Company. As part of the sale of the Company to the Group, the Company entered into a three year transitional services arrangement with a Legal & General Group company under which, certain services including IT infrastructure, support and maintenance for specified systems are provided. This relationship is subject to dedicated oversight and governance by both the Company and Legal & General Group to ensure that obligations are met on an ongoing basis and any issues are appropriately escalated and resolved. This transitional services arrangement will come to an end on 31 December 2022 as set out in the previous integration of operations section of this report. The Company is well prepared to continue to operate following the withdrawal of these services from the Legal & General Group and its continued integration into the Group.

**Digital Risk**

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

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

**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 period.

In forming this conclusion, the directors considered who the key stakeholders of the Company are in both a standalone and Group context, and the issues they need to take into consideration when making decisions. The groups whose interests are material to the Company and Group are set out in the stakeholders section of this statement.

As a wholly owned subsidiary of the Group and in line with the duty to promote the success of the Company for the benefit of its shareholder, the Company's Board must have regard to the overall strategy, and direction of the Group and of the Company's immediate parent, LVGIG, which are complementary. This includes considering the impact on broader stakeholders of the Group when making decisions. The Board is cognisant of the valuable relationships between the Group and its stakeholders and is committed to fostering positive engagement with them and ensuring stakeholder considerations are taken into account when making decisions.

As the Company is part of the wider Group and leverages its governance structure, some strategic decisions are considered at a Group level by the combined Board (that includes AZH and LVGIG) or its committees ('Group Board'). Certain Group stakeholders, their interests (such as employees, community and environment), and any actions affecting them which the Company's Directors are required to have regard to, are therefore considered and determined at a Group Board level and take into account the interests of the Company.

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

As part of its assessment of stakeholder impacts, the Company's Board receives information from the business in the form of Board reports and presentations, which include information about how stakeholder interests have been considered. Where relevant, this information also sets out any impact on the Company or Group's reputation, the environment or on the communities in which the Company or Group operates, in addition to contemplating the other matters set out in section 172 of the Companies Act 2006.

**Stakeholders**

This section of the Company's statement 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.

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

***Shareholder***
As part of its duty under s172, the Board has regard to the interests of the Company's immediate shareholder, LVGIG, and LVGIG's shareholder. The Company engages with its shareholder via established reporting mechanisms and the upward reporting of timely management information. The Company's strategy is aligned to that of LVGIG and the Group, including the successful ongoing integration of the Company's business into the Group's business following the acquisition of the Company and its subsidiaries by the Group on 31 December 2019. The Board continues to engage regularly with and work closely with the Group Board and the executive management team to ensure a successful integration and achieve the aligned strategy of the Group and the Company.

***Employees***
Whilst the Company does not directly employ any staff, the Group is keen to facilitate ways in which employees at all levels can participate in decisions where appropriate. Engaged people are key to the success of the business and part of the strategy, not only do they create positive experiences for customers and colleagues, but they help the Company thrive. As there are no directly employed staff, during the period, LVGIG and Allianz Management Services Limited ('AMSL') provided administration services and staff resources to the Company and to other companies within the Group. LVGIG and AMSL have a high level of resources and expertise which benefit the Company.

As part of the wider Group, the Company follows a number of Group policies and procedures, many of which are in place for the protection of Group employees and to provide them with a safe and inclusive working environment. These include the Allianz Group Code of Conduct and other key policies such as those covering health and safety, diversity and inclusion, and bullying and harassment. Understanding employee sentiment and any concerns are fundamental to positive engagement and each period, the Group invites its people to complete a confidential survey to provide feedback. It remains a key priority to ensure that employees are fully engaged during the period of the run off of the business.

A number of initiatives managed at a Group level also underpin engagement with employees and ensure that employees benefit from an inclusive and meritocratic working environment in which talent is rewarded, people are protected and their differences valued. One such initiative is the Allianz Star Awards, which recognises those employees delivering exceptional work in support of customers, people, business and society. Also during the period, 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.

Various other methods of employee engagement are used by the Group, including town halls, staff newsletters, pulse surveys and the annual Allianz Engagement Survey ('AES'). The AES is a valuable employee feedback platform and an indicator of the Allianz SE group's corporate culture. Employee engagement is a high priority at Allianz SE as it is recognized that attracting, retaining and developing the right people helps to build a diverse talent base, which ultimately enables the delivery of excellent outcomes for customers. The Allianz SE group monitors employee engagement and Company culture through the Inclusive Meritocracy Index, which covers aspects of leadership, performance, collaboration, trust and respect. The slightly revised and more comprehensive Work Well Index plus covers aspects of the quality of the work environment, practices and opportunities. The Board ensures that the interests of Group employees, and particularly those working on the business of the Company, are considered when taking decisions.

Engagement and communication with employees working within the Company's business, particularly in connection with the integration of the business with the Group also continued during the period. The Company's Board continued to receive information regarding the impact of the integration and migration project on employees working within the business. The Board also received information on the impact of COVID-19 on Group employees, their working arrangements (including the return to work model) and their well-being during 2022. The Board was then able to factor Group employee considerations into their decision-making.

***Customers***
Customer centricity is fundamental to the 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 its customers during the migration and run off of policies. Treating them fairly not only enhances customers' experience and trust, but enhances the Company and Group's reputation for acting fairly and with integrity. Customer considerations therefore remain a central pillar of Board decision-making and have done throughout the migration activities.

A key method of engaging with customers across the business is the Net Promoter Score (NPS). The NPS is an important indicator that the Company's customer centric culture is embedded within the organisation. The Company asks its customers for honest and anonymous feedback and then NPS is calculated by comparing the proportion of detractors, passives and promoters in the feedback. These results are shared with and monitored by the Company's Board so this data helps to inform its decisions.

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

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

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

In addition, during 2021, the Group Board engaged an independent third party to undertake a review of culture across the Group, including how the culture supports the delivery of good customer outcomes. Actions are underway to ensure the Board continues to receive relevant and useful information in relation to culture. A key focus is the development of an updated culture dashboard to help the Board monitor customer centric culture within the organisation.

***Suppliers***
Positive relationships with suppliers are vital to the Company and the wider Group's success and its ability to deliver outstanding service to customers. In general, material supplier contracts in terms of materiality to the Group are considered by the Group Board and supplier relationships are managed either directly by procurement or by commercial teams within the business, depending on the size and significance of the contract to the Group.

During the period, the Company continued engagement with its suppliers in connection with the acquisition of the Company by the Group and its integration into the Group business. The integration has had and will continue to have an impact on a number of the Company's suppliers. Throughout the period the Company engaged with its suppliers to ensure that the relationships were managed appropriately and to maintain dialogue regarding the changes and how these might affect individual suppliers. The Board previously agreed that transitional support of certain supplier contract management services would continue to be provided by Legal & General Group to allow an orderly migration of suppliers. The migration process around suppliers is ongoing and continues to be monitored by the Board. Migration will be complete by the end of 2022.

***Regulators***
The Board and senior management aim to foster a transparent and constructive relationship with both the Company's regulators and maintain regular direct contact and dialogue with them. This ensures the regulators pro-actively engage with the Board to aid their understanding of regulators' objectives, priorities and requirements, which can then be factored into Board discussions. Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the regulators from time to time are examined and discussed by the Group Board and the Board and taken into account when considering matters for approval. The Board and senior Management also endeavour to inform the regulators in a timely fashion about any significant events or changes which it needs to be aware of in its supervisory role. As set out later in this statement, the Company and the Group pro-actively engages with regulators when making decisions around its capital management and as a pre-requisite to declaring any distributions to its shareholder.

The FCA introduced new regulation around renewal pricing practices for the general insurance market, effective from 1 January 2022. The Group commissioned an independent report by a third party on the state of the Company's readiness for the proposals. All pricing actions arising from this report were completed.

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

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

***Community and the Environment***
An Environmental, Social, Governance ('ESG') strategy ensures the Allianz SE group is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. The Allianz SE group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of its businesses. The Group undertook its own initiatives during the period in the area of ESG. The Group Board also reviewed the ESG strategy, analysing the global Allianz strategy in relation to ESG and reviewing how that strategy is implemented in the UK. LVGIG's ESG strategy and activities include being an official charity partner to Family Action through fundraising and volunteering, supporting local communities through regional charity committees and setting action plans to improve the impact on the environment through its operations.

**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 its key decisions taken during the period. The Group Board continues to review its processes to ensure that a formal analysis is carried out of how its material decisions might impact the Group's and individual subsidiaries' key stakeholder groups. During 2022, this included refining reporting templates across the Group, including to subsidiaries, to improve the quality of information received by the Board.

During the period the Directors took the following principal decisions:

**1. Capital Reduction and Interim Dividend**

| | |
|---|---|
| **Section 172 considerations** | Promoting the success of the Company for the benefit of the Company's members, the likely consequences of any decision in the long term and the need to act fairly as between members of the Company. |
| **Stakeholders** | Shareholders, Regulators and the Registrar of Companies |
| **Stakeholder consideration in the Board's decision making** | During the period the Board noted the value held in its share premium account and in May 2022 decided that the Company's share premium account of £96,053,377 should be reduced to a zero balance and the said amount transferred into distributable reserves (Capital Reduction). The Board contemplated at that time that the Capital Reduction would facilitate payment of a dividend at a future date.<br><br>In considering the matter the Board reviewed the impact of the Capital Reduction on the Balance Sheet and acknowledged the changes necessary in this regard. The Board noted the Regulatory requirements regarding the Capital Reduction and filed an application to the Prudential Regulation Authority (PRA) for approval. Such approval was received in July 2022 and the Capital Reduction was then registered with the Registrar of Companies.<br><br>Further to the Capital Reduction the Board considered payment of an interim dividend of £55m (Interim Dividend) to shareholders. In doing so the current and future solvency ratios of the Company were reviewed in depth and the current economic uncertainties at that time were noted. The Board acknowledged that its investment strategy meant assets were increasingly being derisked and its insurance exposures were continuing to fall as business migrated away.<br><br>The Board liaised on this matter with the PRA who advised they had no objections and the Interim Dividend was subsequently paid in July 2022. |

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

**Board Decision-making (continued)**

**2. Continued Integration of the Company within LVGIG**

| | |
|---|---|
| **Section 172 considerations** | Interests of employees, fostering relationships with customers and suppliers, maintaining a reputation for high standards, likely consequences of any decision in the long-term. |
| **Stakeholders** | Employees, customers, suppliers |
| **Stakeholder consideration in the Board's decision making** | The integration of the Company (acquired on 31 December 2019) continued to be an important strategic project for the Company and the Board during 2022. The project continued to be an important part of the long-term strategy and diversification of the Group, and as such the Board considered the long-term consequences and impact on various stakeholders, including Group employees, suppliers and customers of decisions made in this long-term project. During 2022, the Board received regular updates on strategy and progress of the migration project overall, which included the impacts on employees, suppliers and customers. The customer centric approach will continue throughout the planning for the Part VII.<br><br>Specific metrics on the migration were regularly reviewed by the Board to understand potential impacts and how these were being managed. For example, for customers and suppliers the NPS data is tracked on an ongoing basis as well as service and claims performance. For Group employees a quarterly update from HR on people aspects of the project is reviewed and discussed, including planned and unplanned leavers and the people risks of the migration project. The Group Board and its committees also regularly review the migration project from a Group perspective. |

By Order of the Board

K. P. Wenzel
Director
16 December 2022

**Fairmead Insurance Limited**
**Directors' Report**
For the nine month period ended 30 September 2022

The Directors present their annual report together with the audited financial statements of the Company for the nine month period ended 30 September 2022.

The Directors changed the accounting period of the Company to 30 September which has resulted in a nine month accounting period for the current period ended on 30 September 2022.

The Statement of Comprehensive Income and related notes are presented for the nine month period ended 30 September 2022 whereas the comparative is for the twelve month period ended 31 December 2021. The Statement of Financial Position and related notes are presented as at 30 September 2022 with the comparative being as at 31 December 2021.

**Result for the period and dividend**

The results of the Company show a pre-taxation loss for the nine month period ended 30 September 2022 of £14,567k (year ended 31 December 2021: £14,041k), details of which are set out on page 21. An interim dividend of £55,000k was paid during the financial period ended 30 September 2022 (2021: £nil). The Company undertook a capital reduction transferring £96,053k from its share premium account to distributable reserves to facilitate the payment of this dividend.

**Future developments**

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

The Company intends to complete a transfer of general insurance liabilities under Part VII of the Financial Services & Markets Act 2000 ('Part VII') from the Company to a sister Company in the wider Group in 2023 and subsequently dissolve the Company. Further detail on these plans are set out in the Going concern section below.

**Going concern**

The Directors have reviewed solvency and capital forecasts and consider that the Company has sufficient resources to continue operating for the foreseeable future and continue to meet all its liabilities and obligations as they fall due. The Directors have reviewed capital and liquidity forecasts, including under stressed scenarios, at least until 31 December 2023 as part of these considerations. The impact of the wider economic environment has also been considered in the solvency and liquidity projections underpinning this conclusion.

However, the Company has continued its plans for migration of its business and, with the exception of a specific contract with a Managing General Agent ('MGA'), all product lines are in run off. The last insurance policy falling under the contract with the MGA is due to expire by 1 April 2024 and the Company will write no further policies after 31 March 2023. The Directors have commenced a project to complete a transfer of general insurance liabilities under Part VII of the Financial Services & Markets Act 2000 ('Part VII') from the Company to a sister Company in the wider Group subject always to regulatory and Court approvals. It is intended that as part of the Part VII, and all associated activities, the Company will no longer have any trade, and therefore should the Part VII be sanctioned by the Court and approved by the regulators, the Directors are intending to take subsequent actions to dissolve the Company. It is anticipated that the Part VII and cessation of trade will be achieved in 2023, and as such it is considered no longer appropriate to apply a going concern basis in the preparation of these financial statements. This has not resulted in any material adjustments to the valuation of any financial statement line items. It is further noted that the conclusions made around the Company having sufficient resources to continue operating for the foreseeable future apply in the scenario of the Part VII proceeding, but also if it should not.

The Company has considered all additional legal and liquidation costs which may result from wind down and Part VII transfer of the Company's insurance business. To the extent that any Part VII and associated wind down costs exceed the costs already allowed for by the Company, these will be borne by other group Companies.

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

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

The Company's investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate bonds have declined due to rising interest rates and credit spreads. As at 30 September 2022, the Company had unrealised losses of £6,736k (net of tax). However, none of the investments held by the Company relate to Russian or Ukrainian entities. The Company's investment portfolios are now in run off and the Company's account has been put into care and maintenance with the investment manager while the portfolios gradually reduce.

**Going concern (continued)**

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

**Financial Risk Management**

The Company's exposure to financial risk through its financial assets and liabilities is provided in the Strategic Report and in note 36 of the financial statements.

**Political Donations**

The Company made no political donations and incurred no political expenditure during the period.

**Directorate**

The Directors of the Company who were in office during the period and up to the date of signing the financial statements are shown below:

S. Treloar
M. Crane
K. P. Wenzel
M. S. Blackburn (appointed 20 January 2022)

**Company Secretary**

C. M. Twemlow

**Modern Slavery Statement**

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

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

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

**Directors' Insurance**

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

**Independent Auditors**

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

**Streamlined Energy and Carbon Reporting (SECR)**

The Company 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. It should be noted that the information disclosed relates to several entities within LVGIG as this is the lowest level of granularity for which the data is collected. Information relating to the Company alone is not available.

The SECR statement covers the nine months ended 30 September 2022 (2021: year ended 31 December 2021) and has been prepared in line with the requirements of the SECR 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 the nine month period ended 30 September 2022 was 4,500,517 kWh (year ended 31 December 2021: 7,558,824 kWh) equating to 915.845 $tCO_2e$ (year ended 31 December 2021: 1,626.702 tCO2e).

**Fairmead Insurance Limited**
**Directors' Report (continued)**
For the nine month period ended 30 September 2022

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

*Location Based Method (continued)*
Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during the nine month period ended 30 September 2022 was 0.245 $tCO_2e$ (year ended 31 December 2021: 0.393 tCO2e).

However, LVGIG's strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (REGO) certificates. Through this strategy, within the above total energy consumption during the nine month period ended 30 September 2022, the Company has sourced a total of 1,872,306 kWh (year ended 31 December 2021: 2,787,227 kWh) of REGO backed (zero emission) electricity equating to 81.72% (2021: 83.58%) of total electricity use.

*Market Based Method*
The total energy consumption for the period ended 30 September 2022 was 4,500,517 kWh (year ended 31 December 2021: 7,558,824 kWh) equating to 602.896 $tCO_2e$ (year ended 31 December 2021: 1,064.100 tCO2e).

Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during the nine month period ended 30 September 2022 was 0.161 $tCO_2e$ (year ended 31 December 2021: 0.257 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.
- 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 used in calculating carbon intensity emissions is 3,736 (2021: 4,135).

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 2022) and supplier specific conversion factors relevant to the generation.

Carbon intensity includes all scope emissions in the calculation.

**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 period. Under that law the Directors have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" and Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in note 1(a) Accounting Policies - Basis of Preparation to the financial statements, the Directors do not believe the going concern basis to be appropriate and, in consequence, these financial statements have not been prepared on that basis.

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

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

**Fairmead Insurance Limited**
**Directors' Report (continued)**
For the nine month period ended 30 September 2022

**Disclosure of information to the Auditor**

In the case of each Director in office at the date the Directors' Report is approved:

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

By Order of the Board

| | |
|---|---|
| K. P. Wenzel | C. M. Twemlow |
| Director | Company Secretary |
| 16 December 2022 | 16 December 2022 |

**Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2022 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Fairmead Insurance Limited (the 'Company') for the 9 month period ended 30 September 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

**Basis for opinion**

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

**Independence**

Following the recommendation of the Audit Committee, we were appointed by the Board on 18 March 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the periods ending 31 December 2020 to 30 September 2022.

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

**Emphasis of matter – financial statements prepared on a basis other than going concern**

We draw attention to Note 1a to the financial statements which explains that the Directors intend to liquidate the Company and therefore do not consider the Company to be a going concern. Accordingly, the financial statements have been prepared on a basis other than that of going concern as described in Note 1a. Our opinion is not modified in this respect of this matter.

**Overview**

| | | 2022 | 2021 |
|---|---|---|---|
| **Key Audit Matters** | **Valuation of claims outstanding** | ✔ | ✔ |
| **Materiality** | *Company financial statements as a whole*<br>£4,136k (2021: £4,653k) based on 1% of gross assets (2021: 1.5% of gross written premium) | | |

**An overview of the scope of the audit**

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

**Key audit matters**

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

| **Key Audit Matter** | | **How the scope of our audit addressed the key audit matter** |
|---|---|---|
| **Valuation of claims outstanding**<br><br>Refer to Note 1c, (accounting policy), Note 35 (Critical accounting estimates and judgements), Note 19 and 22 (financial disclosures) and Note 36 (sensitivity analysis) | The Company recorded gross claims outstanding of £144,688k (2021: £159,582k).<br><br>Valuation of claims outstanding is a key area of estimation within the financial statements, which requires the application of significant judgements and assumptions and is therefore considered to be a key audit matter. Claims outstanding can be further sub-divided into:<br>• short tail claims<br>• subsidence<br>• other long tail claims (OLT)<br>• Accident, Sickness & Unemployment (ASU)<br>• Pet<br><br>Modelling for the valuation of technical provision is reliant on:<br>• The accuracy and completeness of relevant claims data being input into actuarial models; and<br>• The application of appropriate actuarial methodologies, judgements and assumptions | Short tail claims -<br>Management used a paid Development Factor Model ("DFM") to project technical reserves for short tail claims.<br><br>The audit team performed testing on a sample of claims paid (data used in the actuarial projections) by agreeing payments to supporting documentation for accuracy and reconciling the claims listing to the nominal ledger for completeness.<br><br>BDO's Actuarial team was engaged as audit specialist to assess the methodology, significant judgements and assumptions applied by the Company's in-house actuarial team in its claims projections. BDO's actuarial team:<br>• Conducted independent projections of reserves using claims paid development triangles and compared these with the Company's claims reserves provisions and investigated any significant differences.<br>• Reviewed the Company's actuarial report in conjunction with their own projections and considered the reasonableness of different patterns and ratios applied to particular short tail business, including comparison of differences noted.<br><br>Subsidence and other long tail claims -<br>Management used incurred DFM to project technical reserves for subsidence and paid DFM with adjustments for large estimates to project OLT claims. The Company's actuarial team also carried out an analysis that projected a range of reasonable ultimate claims based on a claims paid DFM.<br>• As an independent alternative validation of the Company's subsidence and OLT reserves held, BDO's actuarial team conducted reprojections of claims reserves using claims paid development triangles and compared these with the Company's claims reserves that were based on incurred claims. Any significant differences in results were investigated.<br>• BDO's actuarial team compared their independent projections with the Company's analysis based on claims paid DFM and investigated material differences.<br>• BDO's actuarial team also used other methods such as benchmarking loss ratios against industry data to consider whether loss ratios for subsidence reserves were in line with loss ratios seen elsewhere.<br>• BDO's actuarial team reviewed the Company's actuarial report in conjunction with their own projections and considered the reasonableness assumptions such as inflation, weather, the impact of trends in fees and recoveries and of different patterns and ratios applied to particular lines of business, including comparison of differences noted.<br>• The audit team tested a sample of claims paid by agreeing payments to supporting documentation and reconciling the claims listing to the nominal ledger. The audit team also tested all large OLT claim estimates.<br>• BDO's actuarial team reprojected an allowance for inflation on all long-term claims.<br><br>ASU claims -<br>The Company takes an assumptions approach to projecting ASU liabilities using bordereaux data. This considers key characteristics of the claims and exposures to determine an appropriate estimated liability. |

**Key audit matters (continued)**

| Key Audit Matter | How the scope of our audit addressed the key audit matter |
|---|---|
| **Valuation of claims outstanding (continued)** | ASU claims (continued) -<br>• BDO's actuarial team conducted an independent review of the methodology and assumptions used by management's experts in projecting ASU reserves.<br>• The audit team reconciled the key actuarial data used by management's experts to third party bordereaux reports.<br>• The audit team performed substantive testing on a sample of claims data to confirm key characteristics.<br><br>Pet claims -<br>The Company has two lines of business for Pet: Buddies and Aquarium. Management used a paid loss ratio approach to estimate claims outstanding for Aquarium and a paid DFM approach for Buddies.<br>Management use a paid loss ratio to calculate claims outstanding for Pet.<br>• BDO's actuarial team conducted a methods and assumptions review of the Pet line of business.<br>• The audit team reconciled key data inputs, including gross earned premiums, used by management to substantively tested reports.<br>• The audit team tested a sample of claims paid by agreeing payments to supporting documentation and reconciling the claims listing to the nominal ledger.<br><br>**Key observations:**<br>Satisfactory results were obtained from the procedures carried out on technical provisions. |

**Our application of materiality**

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

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

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

| | **Financial Statements** | |
|---|---|---|
| | 2022 (£'000) | 2021 (£'000) |
| Materiality | 4,136 | 4,653 |
| Basis for determining materiality | 1% of gross assets | 1.5% of gross written premium |
| Rationale for the benchmark applied | Gross assets is considered the primary financial measure monitored by key stakeholders to reflect the performance of the Company and its ability to settle any outstanding insurance liabilities. 1% of gross assets is selected as benchmark as the Company is in run off. | Gross written premium is considered the primary financial measure monitored by key stakeholders and provides a stable measure year on year to reflect the performance of the Company. 1.5% of gross written premium is selected as benchmark as the Company is in run off stage during the year. |
| Performance materiality | 2,845 | 3,024 |
| Basis for determining performance materiality | 65% of Materiality | 65% of Materiality |
| Basis for determining performance materiality | 65% was reflective of our perceived risk of the financial statements containing misstatements, after considering previous experience of this audit engagement we consider this level appropriate. | |

**Specific materiality**

The Company has in place a significant amount of quota share reinsurance in the period ended 30 September 2022, similar to last year, including a 50% overarching quota share agreement. These arrangements have the effect of transferring insurance premium and claims technical provisions to reinsurers. Due to the extent of these arrangements, we felt it was appropriate to set a level of materiality for the financial statements as a whole to determine the extent of audit procedures to be applied over gross premiums and claims before these reinsurance arrangements. A lower, specific, level of materiality has been set for transactions and balances not affected by quota share reinsurance. Specific materiality was based on net assets, as the key performance indicator for stakeholders is the economic stability and solvency of the Company, thus net assets in an appropriate determinant. Our specific materiality of £2,170k (2021: £3,000k) represents 3% (2021: 2%) of net assets. We further applied a performance level materiality of 65% (2021: 65%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

**Reporting threshold**

We agreed with the Audit Committee that we would report to them to them all individual audit differences in excess of £207k (2021: £232k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**Other information**

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Other Companies Act 2006 reporting**

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br><br>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report. |
| **Matters on which we are required to report by exception** | We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:<br>• 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<br>• the financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

**Responsibilities of Directors**

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

**Responsibilities of Directors (continued)**

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

*Identifying and responding to risks of material misstatement due to fraud*

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

- Enquiring of Directors and management as to whether they have knowledge of any actual, suspected or alleged fraud.
- Inspecting Board and Audit Committee minutes.
- Consideration of the Company's own processes to monitor the risk of policyholder fraud.
- Using analytical procedures to identify an unusual or unexpected transactions.

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

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

Our work in respect of valuation of Claims outstanding is set out in the KAM section of this report.

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

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

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

Legal and regulatory frameworks determined most significant are:

- Companies Act 2006.
- Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland.
- Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) regulations.
- The General Data Protection Regulations (GDPR).

**Extent to which the audit was capable of detecting irregularities, including fraud (continued)**

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)*
Non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We performed procedures including:

- Obtaining an understanding of the legal and regulatory framework applicable to the Company's operations;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Enquired compliance and internal audit departments about knowledge of any non-compliance with laws and regulations;
- Discussed impact of any potential non-compliance of laws and regulations during engagement team discussion;
- Inspecting correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA);
- Enquiring of the Directors and other management of instances of non-compliance; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

**Extent to which the audit was capable of detecting irregularities, including fraud**
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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

DocuSigned by:
Alexander Barnes
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20 December 2022

**Alexander Barnes**
**Senior Statutory Auditor**

**For and on behalf of**
**BDO LLP**
**Statutory Auditor**
London, UK

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

**Fairmead Insurance Limited**
**Statement of Comprehensive Income**
For the nine month period ended 30 September 2022 and the year ended 31 December 2021

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Technical account** | | | |
| **Earned premiums, net of reinsurance** | | | |
| Gross written premiums | | 100,135 | 310,199 |
| Outward reinsurance premiums | | (92,105) | (221,040) |
| Net change in provision for unearned premiums | | 37,049 | 32,399 |
| **Net premiums earned** | | 45,079 | 121,558 |
| Interest receivable and similar income | 4. | 184 | 34 |
| **Total technical income** | | 45,263 | 121,592 |
| **Claims incurred, net of reinsurance** | | | |
| Gross claims and change in insurance liabilities | | 112,819 | 197,427 |
| Reinsurers' share | | (82,974) | (130,116) |
| **Claims incurred, net of reinsurance** | 5. | 29,845 | 67,311 |
| Acquisition costs | 6. | 52,131 | 107,970 |
| Other expenses | 9. | 38,159 | 62,181 |
| Reinsurance commission and expenses | 10. | (58,557) | (100,208) |
| **Total operating expenses** | | 31,733 | 69,943 |
| **Total technical charges** | | 61,578 | 137,254 |
| **Balance on technical account** | 2. | (16,315) | (15,662) |
| **Non-technical account** | | | |
| Balance on technical account | | (16,315) | (15,662) |
| Investment income | 3. | 1,748 | 1,621 |
| **Loss before taxation** | | (14,567) | (14,041) |
| Total tax credit | 11. | 2,999 | 4,254 |
| **Loss after taxation for the period** | | (11,568) | (9,787) |
| **Other comprehensive income** | | | |
| **Items that may be classified to profit and loss** | | | |
| Change in value of available-for-sale financial assets | 32. | (8,580) | (2,623) |
| Change in value of available-for-sale financial assets transferred to profit and loss | 32. | 58 | (256) |
| Income tax on these items | 32. | 2,131 | 575 |
| **Other comprehensive loss for the period** | | (6,391) | (2,304) |
| **Total comprehensive loss for the period** | | (17,959) | (12,091) |

In 2022, all activities of the Company are classified as discontinuing.

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

The notes on pages 26 to 51 form an integral part of the financial statements.

**Fairmead Insurance Limited**
**Statement of Financial Position**
As at 30 September 2022 and 31 December 2021

| | Notes | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|---|
| **Assets** | | | |
| **Intangible assets** | 14. | - | - |
| **Investments: Other financial investments** | 18. | 78,344 | 110,900 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 19. | 60,469 | 100,055 |
| Claims outstanding | 19. | 116,616 | 124,765 |
| Unexpired risk provision | 19. | 5,356 | 9,400 |
| | | 182,441 | 234,220 |
| **Debtors** | | | |
| Receivables arising out of direct insurance operations - policyholders | 20. | 11,815 | 71,842 |
| Receivables arising out of direct insurance operations - intermediaries | 20. | 39,746 | 35,619 |
| Receivables arising out of reinsurance operations - related parties | 20. | 6,872 | 8,306 |
| Other debtors | 20. | 43,185 | 57,947 |
| Total debtors | | 101,618 | 173,714 |
| **Other assets** | | | |
| Tangible assets | 15. | - | - |
| Deferred tax asset | 13. | 7,472 | 5,958 |
| Income tax asset | 12. | - | 2,015 |
| Cash and cash equivalents | 21. | 17,432 | 13,401 |
| Total other assets | | 24,904 | 21,374 |
| **Prepayments and accrued income** | | | |
| Accrued Interest | 17. | 1,202 | 1,431 |
| Deferred acquisition costs | 17. | 23,815 | 41,661 |
| Other prepayments and accrued income | 17. | 1,295 | 2,346 |
| | | 26,312 | 45,438 |
| **Total assets** | | 413,619 | 585,646 |

**Fairmead Insurance Limited**
**Statement of Financial Position (continued)**
As at 30 September 2022 and 31 December 2021

| | Notes | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|---|
| **Equity** | | | |
| **Capital and reserves** | | | |
| Share capital | 29. | 37,000 | 37,000 |
| Share premium | 30. | - | 96,053 |
| Retained earnings | 31. | 42,010 | 12,525 |
| Available-for-sale reserve | 32. | (6,736) | (345) |
| Total equity | | 72,274 | 145,233 |
| **Liabilities** | | | |
| **Gross technical provisions** | | | |
| Provision for unearned premiums | 19. | 67,045 | 143,681 |
| Claims outstanding | 19. | 144,688 | 159,582 |
| Other technical provisions | 19. | 13,535 | 18,821 |
| | | 225,268 | 322,084 |
| **Other provisions** | 23. | - | - |
| **Deposits received from reinsurers** | 24. | 18,228 | - |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 25. | 3,144 | 5,797 |
| Creditors arising out of reinsurance operations | 25. | 45,179 | 37,528 |
| Other creditors | 25. | 17,103 | 22,887 |
| Income tax liability | 26. | 517 | - |
| | | 65,943 | 66,212 |
| **Accruals and deferred income** | 27. | 31,906 | 52,117 |
| **Total liabilities** | | 341,345 | 440,413 |
| **Total equity and liabilities** | | 413,619 | 585,646 |

The notes on pages 26 to 51 form an integral part of the financial statements.

The financial statements on pages 21 to 51 were approved by the Board of Directors on 16 December 2022 and were signed on their behalf by:

M. Crane
Director
Company Registration Number: 00423930.

K. P. Wenzel
Director

**Fairmead Insurance Limited**

**Statement of Changes in Equity**

For the nine month period ended 30 September 2022 and the year ended 31 December 2021

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

| | Ordinary share capital £'000 | Share premium £'000 | Retained earnings £'000 | Available-for-sale reserve £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2022 | 37,000 | 96,053 | 12,525 | (345) | 145,233 |
| Capital Reduction (note 30) | - | (96,053) | 96,053 | | - |
| Dividend (interim) | | | (55,000) | | (55,000) |
| Loss after taxation for the period | - | - | (11,568) | - | (11,568) |
| Other comprehensive loss for the period | - | - | - | (6,391) | (6,391) |
| **Total comprehensive loss for the period** | **-** | **-** | **(11,568)** | **(6,391)** | **(17,959)** |
| **Balance at 30 September 2022** | **37,000** | **-** | **42,010** | **(6,736)** | **72,274** |

The notes on pages 26 to 51 form an integral part of the financial statements.

**Fairmead Insurance Limited**
**Statements of Cash Flows**
For the nine month period ended 30 September 2022 and the year ended 31 December 2021

| | Note | 2022<br>£'000 | 2021<br>£'000<br>Restated<br>(note 1) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss before taxation** | | (14,567) | (14,041) |
| | | | |
| **Adjustments for:** | | | |
| Net realised loss/(gain) on financial instruments | 3. | 58 | (256) |
| Dividend income | 3. | (583) | - |
| Interest income | 3. | (1,223) | (1,365) |
| | | | |
| **Changes in operating assets and liabilities:** | | | |
| Net decrease in gross technical provisions | | (96,816) | (87,521) |
| Net increase in deposits received from reinsurers | | 18,228 | - |
| Net decrease in reinsurers' share of technical provisions | | 51,779 | 41,267 |
| Net decrease in prepayments and accrued income | | 19,126 | 15,647 |
| Net decrease/(increase) in debtors | | 72,096 | (10,761) |
| Net decrease in creditors (excluding income tax), accruals and deferred income | | (20,997) | (3,101) |
| Net decrease in provisions | | - | (4,692) |
| Net decrease in financial investments | | 23,747 | 56,618 |
| | | | |
| **Cash inflo/(outflow) generated by operating activities** | | **50,848** | **(8,205)** |
| | | | |
| Interest received | | 1,452 | 1,779 |
| Tax recovered | | 6,148 | 6,367 |
| | | | |
| **Net cash inflow/(outflow) from operating activities** | | **58,448** | **(59)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Dividend received | 3. | 583 | - |
| | | | |
| **Net cash inflows from investing activities** | | **583** | **-** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (55,000) | - |
| | | | |
| **Net cash outflows from financing activities** | | **(55,000)** | **-** |
| | | | |
| Net increase/(decrease) in cash or cash equivalents | | 4,031 | (59) |
| Cash and cash equivalents at the beginning of the period | | 13,401 | 13,460 |
| | | | |
| **Cash and cash equivalents at the end of the period** | | **17,432** | **13,401** |

The notes on pages 26 to 51 form an integral part of the financial statements.

## 1. Accounting Policies

### a) Basis of Preparation

The financial statements have been prepared on a non-going concern basis under the UK GAAP, including FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts', the Companies Act 2006 and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. Details of the Directors' assessment of going concern can be found in the Going concern section of note 1a). The financial statements have been prepared under the historical cost convention, as modified by the adoption of FRS 102 and FRS 103 on 1 January 2020. Accounting policies have been applied consistently to all periods presented.

The Company is exempt from preparing consolidated financial statements by virtue of section 402 of Companies Act 2006 which provides an exemption to a parent Company from the requirement to prepare group accounts if under section 405, on the grounds of materiality, all of its subsidiary undertakings could be excluded from consolidation. The Company is domiciled in the United Kingdom.

The functional and presentational currency of the Company is British Pounds.

**2021 Financial Statements reclassifications**

Reclassifications have been made to the Statement of Financial Position and Statement of Cash Flows to improve the clarity of alignment with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

**Statement of Financial Position**

| | Investments: Other financial investments | Debtors | Prepayments and accrued income |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Assets** | | | |
| 2021 financial statements classification | 112,331 | 176,060 | 41,661 |
| Accrued interest (note 17) | (1,431) | | 1,431 |
| Other prepayments and accrued income (note 17) | | (2,346) | 2,346 |
| Revised classification | 110,900 | 173,714 | 45,438 |

| | Trade payables / Creditors | Other payables and financial liabilities / Accruals and deferred income |
|---|---|---|
| | £'000 | £'000 |
| **Liabilities** | | |
| 2021 financial statements classification | 43,325 | 75,004 |
| Other creditors (note 25) | 22,887 | (22,887) |
| Revised classification | 66,212 | 52,117 |

**Statement of Cash Flows**

| | Net decrease in financial investments | Net increase in debtors | Net decrease in prepayments and accrued income |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Assets** | | | |
| 2021 financial statements classification | 57,032 | (11,366) | 15,838 |
| Accrued interest | (414) | | 414 |
| Other prepayments and accrued income | | 605 | (605) |
| Revised classification | 56,618 | (10,761) | 15,647 |

**1. Accounting Policies (continued)**

**a) Basis of Preparation (continued)**

**Going concern**

The Directors have reviewed solvency and capital forecasts and consider that the Company has sufficient resources to continue operating for the foreseeable future and continue to meet all its liabilities and obligations as they fall due. The Directors have reviewed capital and liquidity forecasts, including under stressed scenarios, at least until 31 December 2023 as part of these considerations. The impact of the wider economic environment has also been considered in the solvency and liquidity projections underpinning this conclusion.

However, the Company has continued its plans for migration of its business and, with the exception of a specific contract with a Managing General Agent ('MGA'), all product lines are in run off. The last insurance policy falling under the contract with the MGA is due to expire by 1 April 2024 and the Company will write no further policies after 31 March 2023. The Directors have commenced a project to complete a transfer of general insurance liabilities under Part VII of the Financial Services & Markets Act 2000 ('Part VII') from the Company to a sister Company in the wider Group subject always to regulatory and Court approvals. It is intended that as part of the Part VII, and all associated activities, the Company will no longer have any trade, and therefore should the Part VII be sanctioned by the Court and approved by the regulators, the Directors are intending to take subsequent actions to dissolve the Company. It is anticipated that the Part VII and cessation of trade will be achieved in 2023, and as such it is considered no longer appropriate to apply a going concern basis in the preparation of these financial statements. This has not resulted in any material adjustments to the valuation of any financial statement line items. It is further noted that the conclusions made around the Company having sufficient resources to continue operating for the foreseeable future apply in the scenario of the Part VII proceeding, but also if it should not.

The Company has considered all additional legal and liquidation costs which may result from wind down and Part VII transfer of the Company's insurance business. To the extent that any Part VII and associated wind down costs exceed the costs already allowed for by the Company, these will be borne by other group Companies.

**Change of Accounting Reference Date**

The Directors changed the accounting reference date of the Company to 30 September, shortening the financial period to which these accounts relate to be the nine months ended 30 September 2022.

The Statement of Comprehensive Income and related notes are presented for the nine month period ended 30 September 2022 whereas the comparative is for the twelve month period ended 31 December 2021. The Statement of Financial Position and related notes are presented as at 30 September 2022 with the comparative being as at 31 December 2021.

The strategic projects being undertaken by the Company to decommission and archive key systems are reaching a critical stage during the fourth calendar quarter of 2022 as part of its continued integration into the wider Allianz group and exit of an outsourcing arrangement with its former parent group, Legal & General Group plc. The accounting reference date of the Company was shortened to mitigate the potential risks this decommissioning and archiving programme could pose to the preparation and financial reporting around 31 December 2022.

**b) Use of estimates**

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the estimation of incurred but not reported ('IBNR') estimates within insurance contract liabilities. The basis of accounting for these liabilities is set out in (c) below and the significant judgements used in determining the estimate are outlined in note 35 to the financial statements.

**c) General Insurance**

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

**1. Accounting Policies (continued)**

**c) General Insurance (continued)**

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

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

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

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

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

An additional unexpired risk provision is recognised if the sum of expected claim costs and claim adjustment expenses, deferred acquisition costs, and administrative costs associated with the run off of the business exceeds related unearned premiums and anticipated investment income. Any required unexpired risk provision will be recognised within Gross technical provisions.

**d) Reinsurance**

Quota share treaties are in force that cede 50% of all business to Allianz Re Dublin Designated Activity Company ('Allianz Re'), meaning 50% of all premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims being recovered from the reinsurer. This quota share cover acts after a 100% quota share treaty acting on business from specific MGAs. The Company cedes insurance premiums and risk through these quota shares to limit the potential for losses and manage capital requirements of the business. Outward reinsurance premiums are recognised in the same accounting period as the related premiums for the direct or inward insurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses, loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the statement of financial position unless a right of offset exists, in which case the associated liabilities are reduced commensurately. The Company recognises a liability with respect to deposits received from reinsurers on the 50% funds withheld quota share treaty relating to the funds withheld on net unearned premium, commission and outstanding claims with respect to this treaty as described in the Strategic Report on page 3.

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

**1. Accounting Policies (continued)**

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

**f) Financial Investments**
Investments are classified in the following categories: financial assets or financial liabilities and Available-For-Sale ('AFS') financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. The Company has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement.

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

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

**h) Debtors**
Debtors are recognised when due. An assessment is performed at each SOFP date whether there is any indication that a debtor is impaired. Where there is objective evidence that the carrying value is impaired then the impairments loss will be recognised in the SOCI.

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

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

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

**j) Interest receivable and similar income**
Interest receivable and similar income relates to instalment fee income on policyholder debt. Income is recognised through the income statement in the period to which it relates to on an effective interest rate ('EIR') basis.

Income associated with the sale of a book of business is recognised in line with contractual obligations being satisfied.

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

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

**1. Accounting Policies (continued)**

**m) Creditors**

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

**n) Accruals and deferred income**

Accruals and deferred income are recognised when the obligating event of authorisation to undertake specified business activities on dates prescribed in relevant legislation has occurred.

**o) Taxation**

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

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

To calculate the current tax charge, the rate of tax used is 19% (2021: 19%), which is the rate of corporation tax applicable for the period. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

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

**p) Cash and cash equivalents**

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

**q) Intangible assets**

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

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

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

**r) Tangible assets**

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

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

**s) Share capital**

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

**t) Share premium**

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

**1. Accounting Policies (continued)**

**u) Leases**

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

**v) Operating cash flows**

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

**w) Provisions and contingent liabilities**

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

**2. Loss before taxation**

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Loss before taxation is stated after charging: | | |
| Auditors' remuneration (see below for further analysis) | 571 | 567 |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Audit services** | | |
| Audit of these financial statements | 407 | 308 |
| Overruns charged for prior year statutory audit services | 85 | 189 |
| Other audit related assurance services - required by national regulation | 79 | 70 |
| **Total** | 571 | 567 |

**Line of business analysis**

For the nine month period ended 30 September 2022

| | Accident and health<br>£'000 | Fire and other damage to property<br>£'000 | Third party liability<br>£'000 | Miscellaneous<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|
| Gross written premiums | 32 | 97,652 | 2,502 | (51) | 100,135 |
| Gross premiums earned | 818 | 161,237 | 4,293 | 10,422 | 176,770 |
| Interest receivable and similar income / (expense) | 74 | - | - | 110 | 184 |
| Total gross technical income | 892 | 161,237 | 4,293 | 10,532 | 176,954 |
| Gross claims incurred | 1,013 | (106,180) | (2,653) | (4,999) | (112,819) |
| Gross operating expenses | (506) | (83,285) | (1,903) | (4,596) | (90,290) |
| Total gross technical charges | 507 | (189,465) | (4,556) | (9,595) | (203,109) |
| Gross balance on technical account | 1,399 | (28,228) | (263) | 937 | (26,155) |
| Reinsurance balance on technical account | (740) | 11,677 | (412) | (685) | 9,840 |
| Balance on technical account | 659 | (16,551) | (675) | 252 | (16,315) |

## 2. Loss before taxation (continued)

### Line of business analysis (continued)

For the year ended 31 December 2021

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

### Geographical analysis

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

## 3. Investment income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Investment income on available-for-sale financial assets | 1,223 | 1,365 |
| Dividend income | 583 | - |
| Realised (losses)/gains on available-for-sale financial assets | (58) | 256 |
| | 1,748 | 1,621 |

The dividend income was received from the Company's subsidiary, Fairmead Distribution Services Limited, which was dissolved on 2 August 2022.

## 4. Interest receivable and similar income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest receivable and similar income: instalment fee income | - | (21) |
| Income associated with the sale of Accident, Sickness and Unemployment ('ASU') book | 184 | 55 |
| | 184 | 34 |

### 5. Insurance claims

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Claims paid | | |
| - gross | 132,999 | 220,517 |
| - reinsurance recoveries | (95,167) | (139,355) |
| | 37,832 | 81,162 |
| Change in insurance liabilities | | |
| - gross | (14,894) | (33,457) |
| - reinsurance recoveries | 8,149 | 14,606 |
| - gross unexpired risk provisions | (5,286) | 10,367 |
| - reinsurers' share of unexpired risk provisions | 4,044 | (5,367) |
| Net claims and change in insurance liabilities | 29,845 | 67,311 |

### 6. Acquisition costs

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Acquisition costs | 34,285 | 92,132 |
| Change in deferred acquisition costs | 17,846 | 15,838 |
| | 52,131 | 107,970 |

All commissions have resulted from direct insurance business.

### 7. Employee information

The Company had no direct employees during 2022. As a result the Company incurred no direct staff costs and made no direct contributions towards retirement benefits (2021: none). Staff resources were provided by LVGIG, which transferred those costs to the Company through re-charges.

### 8. Directors' emoluments

The remuneration of M. S. Blackburn, M. Crane, and S. Treloar in 2022 (M. Crane, S. Treloar, J. Cowell, and C. Wren-Kirkham in 2021) was paid by LVGIG. The Company is a subsidiary of LVGIG which acts as a services Company within the group. LVGIG made a recharge during the 9 month period ended 30 September 2022 of £155k (year ended 31 December 2021: £437k) for such aggregate Directors' emoluments. The remuneration for K. P. Wenzel was paid by Allianz Management Services Limited ('AMS') in 2022 and 2021. AMS is a Group services company and a member of the Group and made no recharge to the Company in respect of these costs. The individuals provide services to the wider Group and a number of subsidiaries, including the Company, and with the continued run-off of the Company's business an accurate apportionment of an individual's remuneration in respect of their role as a Director of the Company cannot be made. Accordingly, no remuneration is being disclosed for such individuals in respect of the period ended 30 September 2022.

## 9. Other expenses

| | | 2022 | 2021 |
|---|---|---|---|
| | | £'000 | £'000 |
| Administrative expenses | (i) | 38,117 | 62,098 |
| Investment management expenses | | 42 | 83 |
| | | 38,159 | 62,181 |

(i) Administrative expenses

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Recharge from LVGIG - staff related costs | 8,741 | 18,452 |
| IT software, consulting and maintenance costs | 19,167 | 27,770 |
| Levies | 8,345 | 13,604 |
| Provisions (note 23) | - | (219) |
| Others | 1,864 | 2,491 |
| | 38,117 | 62,098 |

## 10. Reinsurance commission and expenses

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Reinsurance commissions | (33,803) | (76,441) |
| Change in reinsurance deferred acquisition costs | (16,947) | (11,342) |
| Expenses recoverable from reinsurers | (7,807) | (12,425) |
| | (58,557) | (100,208) |

## 11. Total tax credit

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Current tax** | | |
| - Current tax for the period | (3,616) | (2,101) |
| - Adjustments in respect of prior periods | - | (138) |
| **Total current tax credit** | (3,616) | (2,239) |
| **Deferred tax** | | |
| - Movement in temporary differences | 621 | (917) |
| - Impact of change of taxation rates on deferred taxation balances | (4) | (1,162) |
| - Adjustments in respect of prior periods | - | 64 |
| **Total deferred tax charge/ (credit)** | 617 | (2,015) |
| **Total tax credit** | (2,999) | (4,254) |

### 11. Total tax credit (continued)

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Loss before tax attributable to equity holders | (14,567) | (14,041) |
| Corporation tax at 19% (2021: 19%) | (2,768) | (2,668) |
| Effects of: | | |
| Adjustments in respect of prior periods | - | (138) |
| Adjustments in respect of prior period deferred tax | - | 64 |
| Expenses not deductible for tax purposes | - | 21 |
| Impact of change of taxation rates on deferred taxation balances | (4) | (1,162) |
| Impact of transfer pricing adjustments | (116) | (371) |
| Non-taxable income | (111) | - |
| **Tax attributable to equity shareholders** | (2,999) | (4,254) |

### 12. Income tax asset

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Tax due within 12 months | - | 2,015 |

### 13. Deferred Tax

| | Net tax asset as at 1 January 2022 | Tax (charged) to the income statement | Tax credited to equity | Net tax asset as at 30 September 2022 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Excess of capital allowances over depreciation | 5,842 | (617) | - | 5,225 |
| Claims equalisation reserve | - | - | - | - |
| Available-for-sale financial assets | 116 | - | 2,131 | 2,247 |
| Tax losses | - | - | - | - |
| Deferred tax asset | 5,958 | (617) | 2,131 | 7,472 |

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

The increase in the UK corporation taxation rates from the current rate of 19% to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021. The deferred taxation balances are calculated using the corporation taxation rates which will prevail when the balances unwind. The deferred taxation balances in respect of available-for-sale financial assets at 30 September 2022 are recognised at 25% (31 December 2021: 25%) and excess of depreciation over capital allowances at a blended rate of 24.5% (31 December 2021: 23.7%).

### 14. Intangible assets

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Cost** | | |
| As at 1 January | 72,371 | 72,371 |
| Disposals | (3,535) | - |
| As at 30 September / 31 December | 68,836 | 72,371 |
| **Accumulated amortisation** | | |
| As at 1 January | 72,371 | 72,371 |
| Amortisation and impairment charge for the period | - | - |
| Disposals | (3,535) | - |
| As at 30 September / 31 December | 68,836 | 72,371 |
| **Closing net book value** | - | - |
| **Opening net book value** | - | - |

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

The Company is undertaking a strategic project to integrate its business into the wider LVGIG and Allianz operations. As part of this current software assets are being decommissioned. The disposal in the period to 30 September 2022 relates to a specific piece of software which has now been decommissioned. The remaining assets are expected to be decommissioned during the remainder of 2022.

### 15. Tangible assets

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Cost** | | |
| As at 1 January | 5,934 | 5,934 |
| Disposals | (1,302) | - |
| As at 30 September / 31 December | 4,632 | 5,934 |
| **Accumulated depreciation** | | |
| As at 1 January | 5,934 | 5,934 |
| Depreciation and impairment charge for the period | - | - |
| Disposals | (1,302) | - |
| As at 30 September / 31 December | 4,632 | 5,934 |
| **Closing net book value** | - | - |
| **Opening net book value** | - | - |

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

### 16. Investments in subsidiaries

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

| **Held directly by the business** | **Nature of business** | **Incorporated In** |
|---|---|---|
| Buddies Enterprises Limited ('Buddies') | Insurance intermediary | England & Wales |

The registered office of the subsidiary is 57 Ladymead, Guildford, Surrey, GU1 1DB. The subsidiary is 100% owned and has a 31 December financial year end. The carrying value of the Company's investment in its subsidiary is £nil (2021: £nil) after this investment was impaired in full in 2019.

The Company's former subsidiary, Fairmead Distribution Services Limited ('FDSL'), which it 100% owned was dissolved on 2 August 2022.

## 17. Prepayments and accrued income

| | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|
| Accrued interest | 1,202 | 1,431 |
| Deferred acquisition costs | 23,815 | 41,661 |
| Prepayments | 1,295 | 2,346 |
| | 26,312 | 45,438 |

**Movement in gross and reinsurance deferred acquisition costs**

| | Gross 2022 £'000 | RI 2022 £'000 | Gross 2021 £'000 | RI 2021 £'000 |
|---|---|---|---|---|
| As at 1 January | 41,661 | (41,220) | 57,499 | (52,562) |
| Acquisition costs movement in provision | (17,846) | 16,947 | (15,838) | 11,342 |
| As at 30 September / 31 December | 23,815 | (24,273) | 41,661 | (41,220) |
| To be amortised within 12 months from the reporting date | 23,815 | (24,273) | 41,661 | (41,220) |

## 18. Investments: other financial investments

| | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|
| **Financial investments designated as available-for-sale:** | | |
| Debt securities and other fixed income securities | 78,344 | 110,900 |
| | 78,344 | 110,900 |
| Maturity date of security within 12 months date of the reporting date | 12,492 | 21,150 |
| Maturity date of security after 12 months from the reporting date | 65,852 | 89,750 |
| | 78,344 | 110,900 |

All current and prior period financial investments have been designated as available-for-sale.

None of the financial investments have been pledged as collateral against derivative liabilities (2021: £nil).

**Fair value hierarchy**

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

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

The levels of fair value measurement bases are defined as follows:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

**18. Investments: other financial investments (continued)**

**Fair value hierarchy (continued)**

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

| **As at 30 September 2022** | Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Debt securities and other fixed income securities | 78,344 | 24,609 | 53,734 | - |

| **As at 31 December 2021** | Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Debt securities and other fixed income securities | 110,900 | 41,846 | 69,055 | - |

**19. Technical provisions**

| | Gross 2022 £'000 | RI 2022 £'000 | Gross 2021 £'000 | RI 2021 £'000 |
|---|---|---|---|---|
| Provision for unearned premiums | 67,045 | (60,469) | 143,681 | (100,055) |
| Claims outstanding | 144,688 | (116,616) | 159,582 | (124,765) |
| **Unexpired risk provision** | | | | |
| As at 1 January | 18,821 | (9,400) | 8,454 | (4,033) |
| Movement in provision | (5,286) | 4,044 | 10,367 | (5,367) |
| As at 30 September 2022/ 31 December 2021 | 13,535 | (5,356) | 18,821 | (9,400) |
| Total technical provisions | 225,268 | (182,441) | 322,084 | (234,220) |

**Expected gross and net insurance claim cash flows**

| | Date of undiscounted cash flow | | | | | | Carrying value |
|---|---|---|---|---|---|---|---|
| | 0-1 year £'000 | 1-2 years £'000 | 2-3 years £'000 | 3-4 years £'000 | 4+ years £'000 | Total £'000 | Total £'000 |
| **As at 30 September 2022** | | | | | | | |
| Gross claims outstanding | 64,746 | 37,687 | 20,067 | 12,390 | 9,799 | 144,688 | 144,688 |
| Net claims outstanding | 12,562 | 7,312 | 3,893 | 2,404 | 1,901 | 28,072 | 28,072 |
| **As at 31 December 2021** | | | | | | | |
| Gross claims outstanding | 78,947 | 37,153 | 21,191 | 14,894 | 7,397 | 159,582 | 159,582 |
| Net claims outstanding | 17,222 | 8,107 | 4,624 | 3,250 | 1,614 | 34,817 | 34,817 |

Insurance cash flows are based on the expected date of settlement of the underlying policyholder claim. If the Company completes a part VII transfer, any liabilities which have not been settled at the date of transfer will be transferred as part of that process.

**Movement in claims outstanding**

| | Gross 2022 £'000 | RI 2022 £'000 | Gross 2021 £'000 | RI 2021 £'000 |
|---|---|---|---|---|
| As at 1 January | 159,582 | (124,765) | 193,038 | (139,365) |
| Claims arising | 113,502 | (84,701) | 180,302 | (118,256) |
| Claims paid | (132,999) | 95,167 | (220,517) | 139,355 |
| Adjustments to prior period gross liabilities / reinsurance assets | 4,603 | (2,317) | 6,759 | (6,499) |
| As at 30 September / 31 December | 144,688 | (116,616) | 159,582 | (124,765) |

**19. Technical provisions (continued)**

**Movement in unearned premium**

| | Gross 2022 £'000 | RI 2022 £'000 | Gross 2021 £'000 | RI 2021 £'000 |
|---|---|---|---|---|
| As at 1 January | 143,681 | (100,055) | 208,113 | (132,089) |
| Movement in provision | (76,636) | 39,586 | (64,432) | 32,034 |
| As at 30 September / 31 December | 67,045 | (60,469) | 143,681 | (100,055) |

All unearned premiums are expected to be earned within one year. If the Company completes a Part VII transfer, any unearned premium balances that have not unwound at the date of transfer will be transferred as part of that process.

**20. Debtors**

| | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|
| Receivables arising out of direct insurance operations - policyholders | 11,815 | 71,842 |
| Receivables arising out of direct insurance operations - intermediaries | 39,746 | 35,619 |
| Receivables arising out of reinsurance operations - related parties (note 34 h) | 6,872 | 8,306 |
| Amounts owed by group undertakings | 33,202 | 46,904 |
| Other receivables | 9,983 | 11,043 |
| Other debtors | 43,185 | 57,947 |
| Total debtors | 101,618 | 173,714 |
| Receivable within 12 months from the reporting date | 101,618 | 173,714 |

Within Receivables arising out of direct insurance operations - policyholders is £53k (2021: £604k) due from related parties (note 34 b) and within Receivables arising out of direct insurance operations - intermediaries is £nil (2021: £335k) due from related parties (note 34 c). These relate to premiums collected by Buddies on behalf of the Company.

As in the prior period, the Company does not have significant receivables from policyholders that are past due and for which provision has not been made at 30 September 2022. The Company has £13,622k (2021: £7,639k) of receivables from intermediaries that are past due and for which no provision has been made. This is on a specific book of business with an MGA, which is subject to 100% quota share in respect of all economic risk. As such the Company has no credit exposure in respect of these overdue amounts. A total bad debt provision of £919k was held at the SOFP date (2021: £5,567k) with regards to receivables arising out of direct insurance operations from policyholders and intermediaries that are past due and where the Company bears the credit risk.

Other receivables include imprest float balances provided to certain suppliers and managing general agent partners to fund policyholder claims payments of £9,825k (2021: £10,958k).

Included within 'Amounts owed by group undertakings' is £29,845k (2021: £44,845k) receivable from Allianz Societas Europaea ('Allianz SE') (note 34 f). This is money transferred by the Company to the Allianz SE group cash pool as part of the wider Allianz SE group cash management processes. Also included are £674k (2021: £530k) receivable from Buddies (note 34 d) and £2,683k (2021: £1,529k) receivable from LVGIG (note 34 e).

**21. Cash at bank and in hand**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash at bank and in hand | 17,432 | 13,401 |

Included within cash is outstanding £nil of treasury bills (2021: £1,700k) which matures within 3 months after period end.

## 22. Claims development tables

The tables below present changes in the historical provision for losses and loss adjustment expenses since 2017 and the provision for losses and loss adjustment expenses arising in each subsequent accident period.

All periods presented are for a calendar year with the exception of the 2022 period which is for the nine months to 30 September 2022.

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

**Gross of reinsurance**

| Accident period | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Estimate of ultimate claims costs: | | | | | | | |
| - At end of accident period | 168,852 | 234,502 | 241,444 | 249,256 | 180,302 | 113,502 | 1,187,858 |
| - One period later | 163,728 | 235,671 | 246,317 | 240,899 | 186,817 | - | 1,073,432 |
| - Two periods later | 165,140 | 241,819 | 249,973 | 238,693 | - | - | 895,625 |
| - Three periods later | 165,648 | 244,978 | 249,843 | - | - | - | 660,469 |
| - Four periods later | 167,510 | 246,691 | - | - | - | - | 414,201 |
| - Five periods later | 167,781 | - | - | - | - | - | 167,781 |
| Estimate of cumulative claims | 167,781 | 246,691 | 249,843 | 238,693 | 186,817 | 113,502 | 1,203,327 |
| Cumulative payments | (167,756) | (241,269) | (240,914) | (221,725) | (152,509) | (36,907) | (1,061,080) |
| Outstanding claims provision | 25 | 5,422 | 8,929 | 16,968 | 34,308 | 76,595 | 142,247 |
| Outstanding claims provision for prior accident periods | | | | | | | 955 |
| Claims handling provision | | | | | | | 1,486 |
| Total claims liabilities recognised in the statement of financial position | | | | | | | 144,688 |

**Net of reinsurance**

| Accident period | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Estimate of ultimate claims costs: | | | | | | | |
| - At end of accident period | 168,233 | 183,690 | 138,433 | 76,607 | 62,046 | 28,801 | 657,810 |
| - One period later | 163,096 | 185,370 | 143,736 | 63,070 | 57,796 | - | 613,068 |
| - Two periods later | 164,881 | 182,269 | 146,254 | 77,146 | - | - | 570,550 |
| - Three periods later | 163,058 | 185,039 | 150,503 | - | - | - | 498,600 |
| - Four periods later | 164,532 | 182,088 | - | - | - | - | 346,620 |
| - Five periods later | 162,555 | - | - | - | - | - | 162,555 |
| Estimate of cumulative claims | 162,555 | 182,088 | 150,503 | 77,146 | 57,796 | 28,801 | 658,889 |
| Cumulative payments | (164,217) | (181,910) | (145,889) | (72,679) | (53,325) | (13,997) | (632,017) |
| Outstanding claims provision | (1,662) | 178 | 4,614 | 4,467 | 4,471 | 14,804 | 26,872 |
| Outstanding claims provision for prior accident periods | | | | | | | 457 |
| Claims handling provision | | | | | | | 743 |
| Total claims liabilities recognised in the statement of financial position | | | | | | | 28,072 |

## 23. Other Provisions

| Customer remediation redress provision | 2022 £'000 | 2021 £'000 |
|---|---|---|
| At 1 January | - | 4,692 |
| Provided during the period | - | (219) |
| Utilised during the period | - | (4,473) |
| At 30 September 2022 / 31 December 2021 | - | - |

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

## 24. Deposits received from reinsurers

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Quota share funds withheld | 18,228 | - |
| | 18,228 | - |

The quota share arrangement to which this balances relates is with Allianz Re Dublin Designated Activity Company ('Allianz Re'), a fellow member of the wider Allianz SE Group (see note 34 and in the Strategic Report on page 3).

## 25. Creditors

| | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|
| Creditors arising out of direct insurance operations - agents, brokers and intermediaries | 3,144 | 5,797 |
| Creditors arising out of reinsurance operations | 45,179 | 37,528 |
| Other creditors | 17,103 | 22,887 |
| | 65,426 | 66,212 |

All creditors are expected to be settled no more than twelve months after the statement of financial position date. Within creditors arising out of reinsurance operations, £1,856k (2021: £3,469k) is due to related parties (note 34 h).

| (i) Other creditors | | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| - Amounts owed to group undertakings (note 34 a, g, h (v), j and k) | | 1,712 | 573 |
| - Other payables | (ii) | 15,391 | 22,314 |
| | | 17,103 | 22,887 |

| (ii) Other payables | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Insurance premium tax ('IPT') | 13,209 | 18,112 |
| Sundry creditors | 2,182 | 4,202 |
| | 15,391 | 22,314 |

The 2021 comparatives include £1,927k of payroll creditors within (ii) Sundry creditors £4,202k above. Records received by the Company indicated this balance required external financial settlement and so management held an accrual to cover the potential liability. An investigation into these values was undertaken in 2022 and it was ascertained that, in fact, there was no amount due for external settlement and consequently this value has been released to the Statement of Comprehensive Income during the period.

## 26. Income tax liability

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Tax payable within 12 months | 517 | - |

### 27. Accruals and deferred income

| | 2022 £'000 | 2021 £'000 Restated (note 1) |
|---|---|---|
| Accruals | 7,633 | 10,897 |
| Reinsurance share of deferred acquisition costs (note 17) | 24,273 | 41,220 |
| | 31,906 | 52,117 |

All Accruals and deferred income are expected to be settled no more than twelve months after the statement of financial position date.

### 28. Commitments

**a) Capital commitments**
Authorised and contracted commitments payable after 30 September 2022 are £nil (31 December 2021: £nil).

**b) Guarantee**
Tata Consultancy Services ("TCS") provides software support and related systems maintenance services to the Company. In the course of the services, TCS is required to have access to Flood Re data and thus it entered into a data sharing agreement ("DSA") with Flood Re on Flood Re's standard terms. Legal & General Resources Limited ("LGRL") granted an indemnity to TCS to compensate it for any Flood Re claims under the DSA (on the terms of agreement between LGRL and TCS). The Company, as the beneficiary of the services, granted an uncapped indemnity in favour of LGRL in respect of this TCS indemnity. As part of the Company's exit of the transitional services arrangement with the Legal & General Group at 31 December 2022, the Company will no longer benefit from the services of TCS.

**c) Operating lease commitments**
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| - Not later than 1 year | 1,117 | 1,117 |
| - Later than 1 year and not later than 5 years | 1,264 | 2,102 |
| | 2,381 | 3,218 |

Any lease, and associated building costs, will be recharged to a group company from 1 January 2023.

### 29. Share capital

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Issued and fully paid: | | |
| 36,999,999 ordinary shares of £1 each | 37,000 | 37,000 |

### 30. Share premium

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| As at 1 January | 96,053 | 96,053 |
| Capital reduction | (96,053) | - |
| | - | 96,053 |

During the period to 30 September 2022, the Company undertook a capital reduction transferring £96,053k from its share premium account to distributable reserves to facilitate the payment of a £55,000k dividend.

The share premium reduction was effected under section 641 (1) (a) of the Companies Act 2006. The Board approved the transaction on 4 May 2022 subject to conditions including approval by the Prudential Regulation Authority (PRA). These conditions including PRA approval were satisfied on 18 July 2022 and documents were filed with the Registrar of Companies who registered the transaction effective 19 July 2022. The Board approved that subjectives had been satisfied on 18 July 2022 and this was further ratified at the Board meeting subsequently held 2 August 2022.

### 31. Retained earnings

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| As at 1 January | 12,525 | 22,312 |
| Capital reduction | 96,053 | - |
| Dividend (interim) | (55,000) | - |
| Retained loss after taxation for the period | (11,568) | (9,787) |
| | 42,010 | 12,525 |

### 32. Available-for-sale reserve

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Balance as at 1 January** | (345) | 1,959 |
| Change in value of available-for-sale financial assets | (8,580) | (2,623) |
| Change in value of available-for-sale financial assets transferred to profit and loss | 58 | (256) |
| Deferred tax on these items | 2,131 | 575 |
| | (6,736) | (345) |

### 33. Holding company

The immediate parent company is Liverpool Victoria General Insurance Group. The immediate parent company is registered and domiciled in United Kingdom.

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

### 34. Related Party Transactions

**i) Key management personnel**
Key management personnel represented by the members of the board of Directors are listed on page 12. Director remuneration is discussed in detail in note 8.

**ii) Transactions with group companies**
The Company performed a number of transactions with the Allianz SE group of companies during the normal course of business. The following transactions were undertaken, and the corresponding balances receivable/(payable) at the period end with FDSL (a), Buddies (b, c and d), LVGIG (e), Allianz SE (f), PIMCO Europe Ltd ('PIMCO') (g), Allianz Re (h) and Liverpool Victoria Insurance Company Ltd ('LVIC') (i, j and k). For the Credit / (charge) columns below, 2022 figures relate to the nine months ended 30 September 2022 and 2021 figures relate to the year ended 31 December 2021.

| | Credit / (charge) | | Receivable / (payable) | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £'000 | £'000 | £'000 | £'000 |
| a. Settlement of inter-company expenses (FDSL) | - | - | - | (553) |
| b. Policy collections by Buddies | - | - | 53 | 604 |
| c. Intermediary relationship with Buddies | 6 | (512) | - | 335 |
| d. Policy servicing provided by Buddies | (285) | (613) | 674 | 530 |
| e. Net integration cost expenses | 13,621 | 16,389 | 2,683 | 1,529 |
| f. Cash pool | 410 | 60 | 29,845 | 44,845 |
| g. Investment management fees | (42) | (83) | (15) | (20) |
| h. i) Reinsurance premium earned (Allianz Re) | (51,326) | (136,200) | (11,211) | (18,161) |
| ii) Reinsurance commission earned (Allianz Re) | 17,626 | 38,291 | 3,658 | 4,628 |
| iii) Reinsurance claims incurred (Allianz Re) | 31,863 | 66,298 | 12,569 | 18,370 |
| iv) Funds Withheld (Allianz Re) (note 24) | - | - | (18,228) | - |
| v) Interest on funds withheld (Az Re) | (34) | - | (34) | - |
| i. Revolving credit facility (LVIC) | - | - | - | - |
| j. Claims recharges (LVIC) | - | - | (1,526) | - |
| k. Claims handling expenses (LVIC) | (762) | - | (138) | - |

**34. Related Party Transactions (continued)**

**ii) Transactions with group companies (continued)**

a. The Company settled expenses on behalf of FDSL, who subsequently reimbursed the Company.
b. The Company uses its subsidiary Buddies to collect premiums in respect of pet policies sold.
c. The Company sold Pet insurance through its subsidiary, Buddies, which acted as intermediary. Buddies received commission in respect of the premiums sold on Buddies branded policies, and the balance of premium owed on the policies (net of commission) is treated as a receivable due from Buddies.
d. The Company uses its subsidiary Buddies to service policies and claims in respect of pet policies sold. The receivable was the claims float advanced to Buddies to settle claims on behalf of the Company, net of costs incurred that were recharged to the Company.
e. The net integration expenses recoverable from LVGIG.
f. The Company transfers money daily to Allianz SE cash pool for Allianz SE group cash management.
g. The Company engages the services of PIMCO to manage the investment portfolio.
h. Reinsurance premium, commission and claims accepted/paid by Allianz Re as part of the Company's catastrophe and reinsurance quota share treaty. The balances shown are the net position owed on the arrangements with Allianz Re of a £6,872k debtor (2021: £8,306k) as per note 20, and a £1,856k creditor (2021: £3,469k) as per note 25.
There has been a change to the 50% quota share from 1 January 2022 whereby under the new contract the Company has not transferred any consideration in return for the reinsurer assuming the element of ceded reserves passed to them under the quota share arrangement ("Funds Withheld") as per note 24 and page 3 of the Strategic Report. Previously, the Company had transferred consideration ("Funds Transferred"). There is interest payable on the Funds Withheld. This has resulted in a revision to the metrics presented for the Credit / (charge) to align to the basis of the funds withheld treaty (earned and incurred) for comparison purposes rather than the basis of the funds transferred treaty (written and paid). There is no impact to the 2021 SOCI.
i. LVIC provides a revolving credit loan facility to the Company. Refer to note 36 for further details.
j. LVIC recharges the Company's claims processed by LVIC under a delegated authority arrangement entered into during the period to 30 September 2022.
k. LVIC recharges claims handling expenses related to the Company's claims processed by LVIC under a delegated authority arrangement entered into during the period to 30 September 2022.

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

**35. Critical accounting estimates and judgements**

**General comments regarding assumptions and methodology**

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

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

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

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

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

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

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

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

**35. Critical accounting estimates and judgements (continued)**

**Projection of paid and incurred claim amounts using the basic chain ladder method (continued)**
Development factors are calculated for each origin period which reflect the patterns of claim reporting and payment, and the relative adequacy of the notified case estimates over time. The choice of historic period for determining development factors is a matter of judgement.

During 2022 reserving for claims on the non-MGA household account has been predominantly based on paid claims methods with the exception of subsidence and specific other long tail peril claims.

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

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

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

- On Household, the biggest driver of uncertainty, IBNR claims could increase due to the emergence of latent claims for example, in liability following an adverse court judgement, or in subsidence as an improvement in the housing market leads to an increase in surveys and hence a greater number of cracks being noticed.
- The choice of actuarial methods and the underlying assumptions within these models.

Given this uncertainty, it is Company policy to hold reserves above the best estimate. The total margin held as at 30 September 2022 was 6.4% (2021: 7.7%) of the booked reserves net of reinsurance excluding the quota share arrangement with Allianz Re (excluding gross-net reserve and claims handling expenses).

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

**Subsidence**
Due to dry weather in summer 2022 there is a significant amount of uncertainty around the ultimate cost of subsidence claims on the household business. The loss ratio on the 2022 accident period is expected to be higher due to subsidence claims and there is further risk that subsidence claims on prior periods will deteriorate due to the weather in 2022. The MGA household book is fully reinsured for the 2020 and later accident years meaning there is significantly less exposure on a net basis.

Prior year subsidence claims are based on incurred claims projections. Alternative paid methodologies produce a reserve that is materially aligned with the selected reserves once the current inflationary environment is factored in.

**Inflation**
Impacts from a variety of sources, including COVID-19, Brexit and the war in Ukraine has led to supply chain disruption and is driving a heightened level of inflationary risk on property damage through materials, parts and labour. There is significant uncertainty around the impact of the high levels of inflation on the ultimate cost of claims. The actuarial claims projections reflect increased claims costs observed in claims settled to date and the anticipated impact of inflation on claims yet to be settled.

For property, reserves predominantly relate to the most recent accident years. Inflationary impacts have been observed across both the current and prior accident years, with the best estimate ultimate across all prior years increasing over the course of 2022 in order to reflect the impact of the current inflationary environment.

### 35. Critical accounting estimates and judgements (continued)

**Inflation (continued)**
Inflationary trends continue to be monitored, with claims trends being reviewed at least quarterly for emerging inflationary changes.

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

**Household margin**
The household margin is 6.0% of the booked gross-net reserves (2021: 7.4%). The margin is held to cover the uncertainty associated with adverse claims experience.

**Premium uncertainty**
Premiums are accounted for in the period in which the risk commences as gross written premium. Estimates are included for premiums not notified by the period end. For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The total gross written premium of such estimated premiums for the nine month period ended 30 September 2022 was £26,254k (year ended 31 December 2021: £28,080k). The total earned premium on such estimated premiums for the nine month period ended 30 September 2022 was £3,237k (year ended 31 December 2021: £3,439k).

### 36. Risk management and control

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

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

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

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

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

The principal general insurance reinsurances are excess of loss catastrophe treaties and proportional reinsurance. Under the excess of loss catastrophe treaty, the cost of claims from a weather event, in excess of an agreed retention level, is recoverable from reinsurers. Under the proportional cover the reinsurer receives a share of premium and in return pays the same share of claims. The Company's exposure to insurance risk is declining as the business runs off, other than a specific book of business with an MGA, which is subject to a 100% quota share arrangement covering all economic risk.

*Reserving policy*
The Company has a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience. Discussion of the key drivers of uncertainty in the Company's reserves can be found in note 35.

**36. Risk management and control (continued)**

**Insurance risk (continued)**

The principal products of the Company are:

*Household* (Nine month period to 30 September 2022 GWP: £100,155k; Year to 31 December 2021 GWP: £281,189k)
These contracts provide cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. The Company uses reinsurance to manage the exposure to an accumulation of claims arising from any one incident, usually severe weather. The Company has a catastrophe treaty in place which is a joint treaty and covers the whole LVGIG. This treaty provides protection to Liverpool Victoria Insurance Company Ltd ('LVIC'), Highway Insurance Company Ltd ('HICO') and the Company. Under this treaty all losses in the Group are combined and ceded to the treaty. The treaty reinsures the Group for total losses between £30,000k and £925,000k (2021: £30,000k and £965,000k) for a single event. The current catastrophe treaty expires on 31 December 2022 and will be renewed on 1 January 2023. A quota share treaty is in force that reinsures 50% of all business meaning 50% of all premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims being recovered from the reinsurer. The Company's exposure to household insurance risk is declining as the business runs off, other than a specific book of business with an MGA, which is subject to a 100% quota share arrangement covering all economic risk.

*Accident, sickness and unemployment (Nine month period to 30 September 2022 GWP: £81k; Year to 31 December 2021 GWP: £7,829k)*
These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months. From 1 January 2020, a quota share treaty is in force which reinsures 50% of all business meaning 50% of all earned premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims incurred being recovered from the reinsurer. The ASU book has been in run-off following the sale of this business in 2021.

*Pet (Nine month period to 30 September 2022 GWP: £(101)k; Year to 31 December 2021 GWP: £21,181k)*
These contracts provide cover in respect of veterinary expenses incurred treating policyholder's pets. Liability cover is also provided up to a limit of £2,000k (2021: £2,000k). At 30 June 2021 the accident excess of loss reinsurance in place for claims in excess of £500k expired and was not renewed. This is due to a lower risk of large losses due to the migration of the book. From 1 January 2020, a quota share treaty is in force which reinsures 50% of all business meaning 50% of all earned premium (net of all other reinsurance) is paid to the reinsurer with 50% of claims incurred being recovered from the reinsurer. The Pet book is now in run-off following the start of the migration of this business in 2021.

*Key risk factors*

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

*Concentration*
The insurance of properties which are concentrated in high risk areas, or an above average market share in a particular region, can give rise to a concentration of insurance risk. This risk is managed by ensuring that the risk acceptance policy, terms and premiums both reflect the expected claim cost associated with the location and avoid adverse selection. Additionally, exposure and competitor activity is monitored by location to ensure that there is a geographic spread of business. Catastrophic reinsurance cover reduces the Company's exposure to concentration of risk. The catastrophe reinsurance is designed to protect against up to a modelled windstorm and coastal flood event with a return probability of at least 1 in 500 years (2021: 1 in 500 years).

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

*Economic downturn*
Periods of rapid and prolonged national economic downturn can create significant variation in the frequency and severity of accident, sickness and unemployment claims experience. The Company's exposure to all these key risk factors is decreasing as the books of business are run off.

**36. Risk management and control (continued)**

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

During 2022 there have been various external factors which have caused market and economic volatility across the globe. The conflict in Ukraine and supply chain issues caused from the COVID pandemic have both played significant factors in rising inflation. Governments have tried to counteract the rising inflation by increasing interest rates however market uncertainty across the globe still persists. These factors have led to the Company's investment portfolio producing negative returns during 2022, driven by the increases in interest rates and credit spreads which both result in bond prices going down.

The Company invests in sterling denominated assets only and so is not exposed to losses as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. As the Company's investment portfolio runs off, the Company's exposure to market risk continues to decrease.

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

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

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

The credit profile of the Company's assets exposed to credit risk is shown in the table below. The credit rating bands are provided by independent rating agencies. For unrated assets, internal ratings are maintained which are used to manage exposure to these counterparties. No provision for impairment has been made at the period end (2021: £nil) on the basis that balances are considered to be recoverable, other than that in respect of premium debtors disclosed in note 20. The Company's exposure to credit risk has been decreasing as the business has run off, with the exception of the specific MGA agreement that is subject to a 100% quota share arrangement covering all economic risk.

| | AAA | AA | A | BBB | BB & below | Unrated | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **As at 30 September 2022** | | | | | | | |
| Debt and other fixed income securities (note 18) | 30,833 | 16,282 | 9,987 | 21,082 | 160 | - | 78,344 |
| Cash at bank and in hand (note 21) | - | - | 17,432 | - | - | - | 17,432 |
| **Financial assets** | 30,833 | 16,282 | 27,419 | 21,082 | 160 | - | 95,776 |
| Reinsurers' share of technical provisions (note 19) | - | 178,507 | 2,000 | - | - | 1,934 | 182,441 |
| Debtors (note 20) | - | 36,804 | - | - | - | 64,814 | 101,618 |
| Accrued interest (note 17) | 515 | 100 | 117 | 422 | 49 | - | 1,202 |
| Other prepayments and accrued income (note 17) | - | - | - | - | - | 1,295 | 1,295 |
| | 31,347 | 231,694 | 29,536 | 21,504 | 209 | 68,043 | 382,332 |

**36. Risk management and control (continued)**

**Credit risk (continued)**

| | AAA £'000 | AA £'000 | A £'000 | BBB £'000 | BB & below £'000 | Unrated £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | | |
| Debt and other fixed income securities (note 18) | 42,786 | 28,066 | 13,376 | 26,163 | 509 | - | 110,900 |
| Cash at bank and in hand (note 21) | - | - | 13,401 | - | - | - | 13,401 |
| **Financial assets** | 42,786 | 28,066 | 26,777 | 26,163 | 509 | - | 124,301 |
| Reinsurers' share of technical provisions (note 19) | - | 223,776 | 9,146 | - | - | 1,298 | 234,220 |
| Debtors (note 20) | - | 53,299 | - | - | 298 | 120,117 | 173,714 |
| Accrued interest (note 17) | 662 | 199 | 158 | 402 | 10 | - | 1,431 |
| Other prepayments and accrued income (note 17) | - | - | - | - | - | 2,346 | 2,346 |
| | 43,448 | 305,339 | 36,081 | 26,565 | 817 | 123,761 | 536,012 |

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

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

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

The Company has access to a £150,000k revolving credit facility provided by LVIC (note 34 i). The agreement with LVIC has been in force since September 2020 and expires on 31 December 2023. The revolving credit facility is sufficient to cover the liquidity requirements arising from a 1 in 200 catastrophe event modelled in the stress and scenario testing exercise. The sufficiency of the facility is regularly monitored by management. The balance on the credit facility is £nil (2021: £nil).

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

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

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

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

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

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

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

**36. Risk management and control (continued)**

**Operational risk (continued)**

For the remainder of the year 2022 and 2023, the main sources of operational risks are related to any outstanding deliverables for Project Orchard as well as the approach to manage the Part VII transfer and the MGA until the formal transfer of the business in 2023. None of these activities present a material risk to the Company's current strategic plan.

**Brexit risk**

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

**Sensitivity analysis**

a) *Claims events*

The following table shows material sensitivities to claims events for the Company on pre-tax profit and equity, net of reinsurance. This analysis has been carried out prospectively taking into account the reinsurance the Company had in place from 1 October 2022 (2021: 1 January 2022). The Company's largest insurance risks are from weather catastrophe events and large subsidence events. The single 1 in 200 storm event sensitivity and subsidence event sensitivity look at the impact to the Company from these types of events occurring. In addition to large one-off events the Company is also exposed to an increase in frequency and severity of smaller events. The impact of this is explored through the increase in claims ratio sensitivity. The Company is also exposed to reserve risk where the actual claims are higher than expected. This is explored through the 5% surplus over net claims liabilities sensitivity.

| | Impact on pre-tax profit net of reinsurance | Impact on equity net of reinsurance | Impact on pre-tax profit net of reinsurance | Impact on equity net of reinsurance |
|---|---|---|---|---|
| | 2022 | 2022 | 2021 | 2021 |
| | £'000 | £'000 | £'000 | £'000 |
| **Sensitivity test** | | | | |
| Single storm event with 1 in 200 year probability | (6,142) | (4,975) | (10,621) | (8,603) |
| Subsidence event - worst claim ratio in last 30 years^ | (2,380) | (1,928) | (25,969) | (21,035) |
| 5% decrease in overall household claims ratio* | 2,158 | 1,748 | 5,711 | 4,626 |
| 5% surplus over net claims liabilities | (1,404) | (1,137) | (1,741) | (1,410) |

The joint catastrophe treaty currently in place covers the whole of LVGIG. This treaty is in force between 1 January 2022 and 31 December 2022. This treaty provides protection to LVIC, HICO and the Company. Under this treaty all losses in the Group are combined and ceded to the treaty. The treaty reinsures the Group for total losses between £30,000k and £925,000k (2021: losses between £30,000k and £925,000k) for a single event. When the treaty is adjusted for the Company's exposure only, the treaty is equivalent to providing protection for Company losses between £8,000k and £260,000k (2021: between £15,000k and £475,000k).

For any single event with claims in excess of £8,000k (2021: £15,000k) but less than £260,000k (2021: £475,000k) the ultimate cost to the Company, before quota share reinsurance but after MGA reinsurance, would be £8,000k (2021: £15,000k) plus the cost of the reinsurance reinstatement premium and claims handling expenses. This reduces to £4,000k (2021: £8,000k) plus half the cost of the reinsurance reinstatement premium and claims handling expenses once quota share reinsurance is allowed for. The impact of a 1 in 500 year modelled windstorm and coastal flood event would not exceed the catastrophe cover, with an estimated total cost to the Company of £13,000k (2021: £23,000k) before allowing for quota share. This reduces to £7,000k (2021: £12,000k) once quota share reinsurance is allowed for. For the purposes of calculating the recoveries from the joint treaty the above sensitivities assume LVIC and HICO would also experience catastrophe losses in line with their exposure.

b) *Market conditions*

In addition to Insurance risk the Company is also exposed to Market risk through the investment portfolio it holds. The Company's investment portfolio is made up of bonds and cash and so the key risks the Company is exposed to are changes in interest rates and changes in credit spreads which will both result in market value fluctuations. The impact of these market risks on the Company's pre-tax profit and equity are explored in the following sensitivities.

^ Figures based on exposure as at the periods ended 30 September 2022 and 31 December 2021.

* 2022 figures in the table relate to the nine months ended 30 September 2022 and 2021 figures relate to the year ended 31 December 2021.

**36. Risk management and control (continued)**

**Sensitivity analysis (continued)**

2022 figures in the table below relate to the nine months ended 30 September 2022 and 2021 figures relate to the year ended 31 December 2021.

| | Impact on pre-tax profit 2022 £'000 | Impact on equity 2022 £'000 | Impact on pre-tax profit 2021 £'000 | Impact on equity 2021 £'000 |
|---|---|---|---|---|
| **Sensitivity test** | | | | |
| 100bps increase in interest rates | (1,787) | (1,447) | (2,932) | (2,375) |
| 100bps increase in credit spreads | (1,283) | (1,039) | (2,104) | (1,704) |

**Capital**

The Company's capital resources are measured and monitored on a regulatory basis and to comply with the minimum capital requirements. Following the implementation of the Solvency II regulatory regime, as adopted by the PRA, which came into force on 1 January 2016, capital resources are managed on a Solvency II basis. The regulatory capital requirement is determined using the Standard Formula.

The capital that the Company needs to hold above its liabilities to meet the Company's objectives and ensure continued solvency is assessed on a quarterly basis, and the results of these calculations are presented to relevant internal governance forums. Solvency ratios are disclosed in detail in the Company's Solvency and Financial Condition Report (SFCR) which can be found on the Allianz website: https://www.allianz.co.uk/about-allianz/our-organisation/financial-results.html. As at 30 September 2022 the Company held £31,502k (31 December 2021: £66,434k) of surplus eligible Own Funds above the SCR requirement, representing a regulatory capital coverage ratio of 187% (31 December 2021: 208%). This buffer of capital resources over the regulatory requirement ensures that the Company is able to more than meet its insurance obligations after a 1-in-200 year event. In line with its risk management approach, the Company maintained an appropriate capital buffer throughout the previous year and remain well above its risk appetite action level.

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