COMPANY REGISTRATION NUMBER: 01799209

LV PROTECTION LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

A M Parsons	
J T Perks	Resigned 25 February 2019
R A Rowney	Resigned 1 July 2018
A W Snow	Appointed 1 July 2018

Company Secretary

R S Small	Resigned 3 September 2018
M P Jones	Appointed 19 September 2018

Registered office
County Gates
Bournemouth
BH1 2NF

Tel: 01202 292333

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

1. Results and dividends

The profit for the year after taxation is £130,024 (2017: £224,794 loss) as set out on page 12. The Directors have not proposed or paid any dividends in the current year (2017: £nil).

2. Principal activities

During 2014 the Company obtained permissions from the Prudential Regulation Authority (PRA) to underwrite unemployment insurance as part of a combined policy offered by Liverpool Victoria Friendly Society Limited (LVFS). This underwriting activity commenced on 1 January 2015.
On 31 May 2017 new business sales were suspended pending a review of market opportunities and further in-house system development.

3. Business review and future prospects

The results for the Company and its financial position are set out in the financial statements that follow this report.

(a) Business review

During 2018 the claims performance experienced by LV Protection Limited (LVPL) improved which reduced the loss ratio. A one off credit to acquisition costs has been recognised in the current year which has contributed to the overall profit in 2018. This credit reflects amounts due from LVFS in relation to commission costs for certain historic cancelled policies. For further detail see Note 10. The review of market opportunities and in-house systems development is still ongoing and there are no current plans to commence new business sales in the immediate future. The Company will continue to service its in in-force book.

(b) Regulatory

A number of legal and regulatory developments affected the UK insurance market during 2017 and continued into 2018. These include:

Capital

The Directors monitor the solvency of the Company and externally monitor and review all developments and impacts to the solvency and capital management processes of both insurance companies and regulators. The Company used the Standard Formula to calculate its capital requirements throughout 2018.

FCA market intervention

The FCA has made its intention public to intervene more actively in the workings of the market where it feels that the right outcomes are not being achieved for the consumer (e.g. consultation over ancillary fees and price comparison websites). This may result in requirements to change practice in product design, distribution and pricing. While the Company considers that customer value is at the heart of the way it does business, as evidenced by market leading customer satisfaction and recommendation scores, there is a risk that such interventions designed to address general market concerns cause incidental cost and disruption to the Company.

General Data Protection Regulation (GDPR)

On 25 May 2018, the Data Protection Act was replaced with a new piece of EU regulation, GDPR, which governs the data that can be held about customers, the length of time that data can be kept and the security of that data. The LV= Group has undertaken an extensive program ensuring systems and processes only capture the essential data, minimising the time data is held and where necessary has put plans in place to remove data which is surplus to legitimate requirements.
Further detail as to how the Company manages its principal types of risk is disclosed in Note 6 of the financial statements.

(c) Outlook and Strategy

The Company's main purpose was to provide unemployment insurance as part of a combined policy offered by LVFS. The Company's strategy is to service existing policyholders in a profitable manner in 2019 while retaining its focus on high levels of customer service and delivering fair customer outcomes. The Company is currently closed to new business.

3. Business review and future prospects continued

(d) Principal Risks and Uncertainties

The Company operates in a regulated environment and maintains a high quality control environment over its activities. The Board monitors all risks throughout the year and executes its strategy where practicable to reduce its exposure to different types of risk. There is limited exposure to market risk since all assets currently invested to back the insurance liabilities in LVPL are cash and deposits. The Company is also subject to lapse risk since policies are unilaterally cancellable by policyholders.

There is a risk of a no deal Brexit, where the risk of increased unemployment could lead to increased claims in the future. Management regularly review the adequacy of such provisions to ensure they are sufficient and believe that amounts held adequately cover this risk.

Further information on the entity's financial risk management and policies is detailed within Note 6.

(e) Key performance indicators

The Board sets key performance indicators (KPIs) and targets which it monitors throughout the year. The key metrics routinely used are the loss ratio, expense ratio and the resulting combined ratio.

In 2018 LVPL has achieved a loss ratio of 24.7% and an expense ratio of 18.8% giving an overall combined ratio of 43.5%. In 2017, it achieved a loss ratio of 132% and an expense ratio of 90.3% giving an overall combined ratio of 222.3%.The change in performance is due to a combination of improved claims experience and a one off credit to acquisition expenses reflecting amounts due from LVFS in relation to commission costs for certain historic cancelled policies.

ON BEHALF OF THE BOARD OF DIRECTORS

A M Parsons
Director
21 March 2019

The directors submit their annual report and the audited financial statements for LV Protection Limited (the 'Company') for the year to 31 December 2018.

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

- Results and dividends;
- Principal activities of the Company;
- Business review and future prospects;
- Principal risks and uncertainties.

1. Basis of accounting
The financial statements for the Company are presented using International Financial Reporting Standards as adopted in the European Union.

2. Directors and their interests
The directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 3.

No director had any interest in the share capital of the Company at 31 December 2018 (2017: £nil).

3. Employees
The Company does not directly employ any staff as it utilises the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities.

4. Directors' indemnity statement
The Directors have the benefit of an indemnity which constitutes a "qualifying third party indemnity provision" as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. LVFS, the ultimate parent company, also purchased and maintained throughout the year on behalf of its subsidiaries Directors' and Officers' liability insurance in respect of LVPL and its Directors. It is available for inspection at the registered office of LVPL details of which are provided on page 3.

5. Statement of Directors' responsibilities
The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

6. Statement of Directors' responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

7. Independent auditors and disclosure of information to auditors

In the case of each Director at the date of this report, they confirm that:

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

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED BY ORDER OF THE BOARD

MPJones

M P Jones
Company Secretary
21 March 2019

Report on the audit of the financial statements

Opinion

In our opinion, LV Protection Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall materiality: £53,200 (2017: £56,700), based on 1% of total assets.
- We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations no scoping by location is performed.
- The valuation of deferred acquisition costs ('DAC asset').

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority (see page 4 of the Report and Financial Statements), and we considered the extent to which non-compliance might have a material effect on the financial statements of the company, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Prudential Regulation Authority's regulations and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure of the Company and management bias in accounting estimates and judgemental areas of the financial statements. Audit procedures performed by the engagement team included:

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, such as a credit to revenue and a debit to the balance sheet (other than to expected accounts, being debtors and amounts due from group companies)
- Procedures relating to the valuation of deferred acquisition costs described in the related key audit matters below; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above 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 would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
The valuation of deferred acquisition costs ('DAC asset') Under the accounting policies of the company, and in line with IFRS 4, the company defers the direct costs of acquiring business as an asset in the statement of financial position to be released over the period of time the company expects to recognise economic benefits from that business. These direct costs are charged to the company by its parent company, LVFS, who administer the unemployment product (as part of a wider product offering) on behalf of the company. When policies are cancelled the company is notified by LVFS and the associated asset is written off, with the full amount of the direct costs originally incurred being reimbursed by LVFS. During the current year £169,000 of the DAC asset has been derecognised and attributed to reimbursement of acquisition costs by LVFS for cancelled policies. We consider this a key audit matter owing to the size of the adjustment which is not in line with recent periods.	We have obtained management's calculation of the year end DAC asset and performed the following procedures to obtain comfort that cancelled policies had been appropriately accounted for within the calculation; • Tested a sample of policies to confirm that their status within the calculation, being either active or cancelled, was correct; • As the company's book is a closed book, we performed a comparison of the list of policies used as the basis for the calculation in the prior year to that used in the current year, investigating any discrepancies; and • We performed a recalculation of the credit to the DAC asset as a result of the additional cancelled policies. Based on the work performed above, we have concluded that the calculations support the adjustment to the DAC asset for cancelled policies.

How we tailored the audit scope

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

The entity is a wholly owned subsidiary that operates from a single location. As such, we have performed an audit of the complete financial information of LV Protection Limited.

We have performed a largely substantive audit, however we have reviewed the controls in place at the entity to the extent that they are relevant to our audit.

Materiality

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

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

Overall materiality	£53,200 (2017: £56,700).
How we determined it	1% of total assets.
Rationale for benchmark applied	The company is closed to new business with an asset position that provides sufficient solvency and cover over its liabilities. Furthermore, the entity has the support, if needed, of its ultimate parent, Liverpool Victoria Friendly Society, and thus total assets is considered an appropriate benchmark..

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,650 (2017: £5,670) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 29 May 2008 to audit the financial statements for the year ended 31 December 2008 and subsequent financial periods. For the audit periods commencing 1st January 2011 through 31st December 2013, the Company received an audit exemption and therefore no audit procedures were performed by us. We recommenced our position as the auditors for the year ended 31st December 2014 and have resumed uninterrupted for the 5 years ended 31st December 2018.

Adam Beasant (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
21 March 2019

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Insurance contract premium revenue	7	**343,421**	344,178
Insurance contract premium ceded to reinsurers	7	**(96,147)**	(109,226)
Net premium revenue		**247,274**	234,952
Investment income	8	**20,747**	8,936
Total income		**268,021**	243,888
Insurance claims and loss adjustment expenses	9	**(177,457)**	(451,064)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**116,377**	140,989
Net insurance claims		**(61,080)**	(310,075)
Other operating and administrative expenses	10	**(46,418)**	(212,184)
Total claims and expenses		**(107,498)**	(522,259)
Profit/(Loss) before tax		**160,523**	(278,371)
Income tax(charge)/credit	13	**(30,499)**	53,577
Profit/(Loss) for the year attributable to the owners		**130,024**	(224,794)
Total comprehensive income/(loss) for the year		**130,024**	(224,794)

All balances relate to continuing business.

The notes on pages 16 to 36 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to equity holder of the Company			
		Share capital	**Accumulated losses**	**Capital reserve**	**Total**
	Note	**£**	**£**	**£**	**£**
Balance at 1 January 2018		**1,000,000**	**(1,023,263)**	**4,000,000**	**3,976,737**
Profit for the year	26	**-**	**130,024**	**-**	**130,024**
Balance at 31 December 2018		**1,000,000**	**(893,239)**	**4,000,000**	**4,106,761**

		Attributable to equity holder of the Company			
		Share capital	Accumulated losses	Capital reserve	Total
		£	£	£	£
Balance at 1 January 2017		1,000,000	(798,469)	4,000,000	4,201,531
Loss for the year	26	-	(224,794)	-	(224,794)
Balance at 31 December 2017		1,000,000	(1,023,263)	4,000,000	3,976,737

The notes on pages 16 to 36 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Assets			
Deferred acquisition costs	14	**293,908**	527,103
Current tax asset	21	**-**	53,577
Financial assets			
- Fair value through income	15	**3,827,000**	3,558,000
Loans and other receivables	16	**34,225**	20,318
Reinsurance assets	17	**285,581**	347,054
Insurance receivables	18	**867,120**	1,049,408
Cash and cash equivalents	19	**9,810**	10,274
Total assets		**5,317,644**	5,565,734
Liabilities			
Insurance contract liabilities	20	**893,410**	1,222,997
Current tax liability	21	**30,499**	-
Insurance payables	22	**279,558**	335,329
Trade and other payables	23	**7,416**	30,671
Total liabilities		**1,210,883**	1,588,997
Equity			
Share capital	24	**1,000,000**	1,000,000
Capital reserve	25	**4,000,000**	4,000,000
Accumulated losses	26	**(893,239)**	(1,023,263)
Total equity		**4,106,761**	3,976,737
Total liabilities and equity		**5,317,644**	5,565,734

The notes on pages 16 to 36 are an integral part of the financial statements.

The financial statements on pages 12 to 36 were approved by the Board of Directors on 21 March 2019.

Signed on behalf of the Board of Directors

A M Parsons
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Cash and cash equivalents at 1 January	19	**10,274**	9,615
Cash flows arising from:			
Operating activities			
Cash generated from operating activities	27	**194,212**	74,114
Net increase in investments at fair value through income		**(269,000)**	(110,000)
Interest income received	8	**20,747**	8,936
Group relief received	21	**53,577**	27,609
Net cash flows (used in)/generated from operating activities		**(464)**	659
Net (decrease) / increase in cash and cash equivalents		**(464)**	659
Cash and cash equivalents at 31 December	19	**9,810**	10,274

The notes on pages 16 to 36 are an integral part of the financial statements.

1. General information

LV Protection Limited is a company limited by shares, domiciled and incorporated in the United Kingdom. The Company underwrites unemployment insurance as part of a combined policy offered by Liverpool Victoria Friendly Society Limited (LVFS).

2. Basis of presentation

These financial statements have been prepared in accordance with IFRSs and interpretations issued by the IFRS Interpretations Committee (IFRSIC) as published by the International Accounting Standards Board and adopted by the European Union (EU). In addition the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and liabilities at fair value through income. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise noted, the financial statements are presented in pounds sterling, which is the Company's presentation currency.

The preparation of the financial statements in conformity with IFRSs requires the use of estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Insurance contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in 2006. Whilst this SORP is no longer in force, the Company continues to apply it, as it was existing accounting practices for insurance contracts when the Company first time adopted IFRS.

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

3. Accounting policies

Premiums

Earned premium is written premium adjusted for unearned premium. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of Financial Position date adjusted for lapses. Unearned premiums are calculated on a time apportionment basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance assets

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

An impairment review is performed at the Statement of Financial Position date. Impairment occurs when there is evidence that the Company will not recover outstanding amounts under the contract, such losses being recorded immediately in the Statement of Comprehensive Income.

3. Accounting policies (continued)

Investment income
Investment income includes dividends and interest from investments at fair value through profit and loss. Dividends are included on an ex-dividend basis. Interest receivable from investments at fair value through profit and loss is accounted for on an accruals basis. Investment expenses are accounted for as incurred.

Income taxes
The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses.

Income tax credit/(expense)
Income tax expense recorded in the Statement of Comprehensive Income represents the current year corporation tax credit or charge. Corporation tax is calculated on trading profits or losses arising in the year.

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

Deferred Acquisition costs ('DAC')
The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts.

When a deferred acquisition cost asset is created, the rate of amortisation of that asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future margins over the period in which the contracts concerned are expected to remain in force.

Liability adequacy test
At each Statement of Financial Position date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency/excess is immediately charged/(released) to the Statement of Comprehensive Income and an unexpired risk reserve established.

3. Accounting policies (continued)

Financial assets at fair value through profit and loss
Investments are classified as fair value through profit and loss (FVTPL) where they are held for trading or designated as FVTPL at inception. Financial assets designated at FVTPL at inception are part of a group of financial assets that are managed and their performance evaluated and reported to the board on a fair value basis in accordance with the documented investment strategy.

Such assets are valued at market prices, or prices consistent with market ratings should no price be available. Day one gains or losses are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Insurance receivables and payables
Insurance receivables and payables are recognised when due and include amounts due from or to policyholders, agents, brokers and reinsurers.

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

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

An assessment is performed at each Statement of Financial Position date whether there is any indication that a loan or receivable, or a group of loans or receivables, is impaired. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income.

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

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

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

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

3. Accounting policies (continued)

Claims and insurance contract liabilities
Claims incurred comprise claims paid in the year and changes in the provisions for outstanding claims. Where applicable, deductions are made for recoveries from other parties. A separate asset is recognised for reinsurance recoveries which are accounted for in the same period as the related claim.

Provision is made for the estimated cost of claims incurred but not settled. The estimated cost of claims includes the expected value of recoveries. However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Provisions are adjusted at the Statement of Financial Position date to represent a best estimate of the expected outcome.

Outstanding claims are estimated using past and current claims experience. This is continually reviewed to ensure that the provision for outstanding claims is sufficient based on the claims history and appropriate amendments to the methodology are made. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share of the provision.

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

3. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES

(i) New and amended standards adopted by the Company

Although no new standards have come into effect, amendments to IFRSs have been adopted by the EU for accounting periods beginning on or after 1 January 2018. These amendments have been adopted by the Company but do not have a material impact on the 2018 financial statements.

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

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

Compliance with the criteria for the temporary exemption from IFRS 9
The IFRS 4 amendment adopted in the reporting period permits insurance entities which meet the predominance ratio test to have a temporary exemption from IFRS 9 where this standard has not yet been adopted. The predominance ratio test is required to be performed at the reporting entity level, using the annual reporting date that immediately precedes 1 April 2016 (i.e. 31 December 2015).

The predominance ratio test of an entity's insurance liabilities against its total liabilities includes two tests:
1) The carrying amount of its liabilities arising from contracts within IFRS 4's scope must be significant compared to the total carrying amount of all of its liabilities; and
2) The carrying amount of the insurer's liabilities connected with insurance compared with the total carrying amount of all of its liabilities must be above a threshold. Liabilities connected with insurance include IFRS 4 liabilities, Investment contract liabilities measured at fair value through profit or loss (FVTPL) applying IAS 39 and other liabilities that are connected to these insurance and investment contracts.

The threshold for liabilities connected with insurance compared with total liabilities is:

- Greater than 90%, or
- Greater than 80% but less than or equal to 90% and the entity provides evidence that it does not have a significant activity that is unrelated to insurance.

The Company meets the criteria to apply the temporary exemption from IFRS 9 as the predominance ratio test is passed based on the 31 December 2015 financial statements. The carrying value of liabilities within IFRS 4's scope at 31 December 2015 was significant at 68% of total liabilities. The 90% threshold for liabilities connected with insurance is passed once intercompany payables relating to the cost of administering insurance contracts are included as liabilities connected with insurance. No subsequent reassessment of the predominance ratio test is required; however the liabilities within IFRS 4's scope and those connected with insurance at 31 December 2018 continue to exceed 90% of total liabilities.

3. Accounting policies (continued)

Categories of financial assets
Separate disclosure is required of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and not categorised as Fair Value through Profit and Loss (FVTPL) due to either being managed on a fair value basis or held for trading. The Company has no such financial assets that require separate disclosure.

The fair value at 31 December 2018 and the amount of change in the fair value during the reporting period of the Company's financial assets are as follows:

Financial assets	**Fair value at 31 December 2018 £**	**Movement in fair value recognised in the statement of comprehensive income £**
Insurance receivables (short-term)[1]	867,120	-
Financial assets at fair value through income	3,827,000	-
	4,694,120	-

1 The carrying amount of the financial asset measured applying IAS 39 is deemed to be a reasonable approximation of its fair value

Other than as set out above, no new or amended accounting standards and interpretations were adopted for the 2018 financial year.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following:

IFRS 17 'Insurance contracts'
Issued in May 2017, IFRS 17 replaces IFRS 4 'Insurance contracts'. The original effective date of IFRS 17 was 1 January 2021; however the IASB has proposed a one-year deferral subject to public consultation ahead of formal approval. This standard provides an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The standard will have a material impact on the Company and transitioning the Company's accounting to the new standard will require significant effort. The impact of this new standard on the Statement of Financial Position and the Statement of Comprehensive Income is currently being assessed.

IFRS 9, 'Financial instruments'
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The effective date was 1 January 2018, however as noted above, IFRS 9 has been deferred by the Company in order to align adoption with that of IFRS 17. In line with the proposed deferral of the IFRS 17 effective date noted above, the IASB has also proposed that the temporary exemption from IFRS 9 for qualifying insurers be extended until 1 January 2022.

3. Accounting policies (continued)

IFRS 16 'Leases'
IFRS 16 'Leases' was issued in January 2016 and replaces existing leases guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.' IFRS 16 is effective from 1 January 2019. The Company has no leases recognised under IAS 17 and will apply the practical expedient within IFRS 16 to grandfather the definition of a lease on transition.

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

4. Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies, Management has made the following judgements, estimations and assumptions which have the most significant effect on the financial statements.

Fair value of financial assets
Market observable inputs are used wherever possible. Judgement is applied to determine whether a market is active; this is based upon the facts and circumstances of the relevant market.

Valuation of general insurance contract liabilities
For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Statement of Financial Position date. For further details, please see Note 20.

Other
The judgments, estimations and assumptions around financial assets and claims judgments are discussed in Note 6.

5. Capital Management

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

The Company retains capital to meet four key objectives:

(i) To ensure financial stability;
(ii) To enable the Company's strategy to be implemented;
(iii) To give confidence to policyholders and other stakeholders who have relationships with the Company; and
(iv) To comply with capital requirements imposed by its UK regulator, the Prudential Regulatory Authority ('PRA').

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

2016 marked the beginning of the Solvency II regime, an EU imposed legislation, which for UK firms replaces the ICAS regime. There are again two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2017 and 2018.

As at 31 December 2018, the Company disclosed regulatory capital of £3,980,434 (2017: £3,811,919) being the capital reported to the Bank of England in the Solvency II Q4 return.

The Company complied with all externally imposed capital requirements that it was subject to throughout the reporting period.

6. Risk management and control

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

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

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

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Company's claims reserves. The risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. For general insurance contracts this is primarily represented by exposure to risks which may lead to significant claims in terms of frequency or value. There is also a risk that the prices charged for unexpired risks to which the Company is contractually committed may prove to be insufficient to absorb the cost of the claims which they will generate and any related DAC. Procedures are in place to measure, monitor and control exposure to all these risks.

The Company has Quota Share reinsurance contracts which reduce the Company's exposure to claims.

The insurance risk is concentrated to a single product being unemployment insurance. Given the nature of the product and the terms of the policies, the impact on profit or loss and equity, as a result of reasonable changes in assumptions is considered not to be material.

Market risk
Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has limited exposure to market risk due to the types of assets held as outlined in the Strategic Report.

Currency risk
The Company is not exposed to foreign exchange risk.

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

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments.

6. Risk management and control (continued)

Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given their high credit ratings Management does not expect any counterparty to fail to meet its obligations. Counterparty exposure is subject to regular review.

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

Credit risk exposure 2018	**AAA** £	**AA** £	**A** £	**BBB** £	**Below BBB** £	**Not rated** £	**Total** £
Shares, other variable yield securities and units in unit trusts	3,827,000	-	-	-	-	-	3,827,000
Loans and other receivables	-	-	-	-	-	34,225	34,225
Cash and cash equivalents	-	-	-	9,810	-	-	9,810
Total exposure	3,827,000	-	-	9,810	-	34,225	3,871,035

Credit risk exposure 2017	AAA £	AA £	A £	BBB £	Below BBB £	Not rated £	Total £
Shares, other variable yield securities and units in unit trusts	3,558,000	-	-	-	-	-	3,558,000
Cash and cash equivalents	-	-	-	10,274	-	-	10,274
Total exposure	3,558,000	-	-	10,274	-	-	3,568,274

Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

The tables below provides information regarding the maximum credit risk exposure to financial assets, together with the extent to which they are due, overdue and impaired. The table also shows the age analysis of the Company's past due and/or impaired assets.

Age analysis of assets past due/impaired 2018	**<31 days** £	**31 to 60 days** £	**61 to 90 days** £	**>90 days** £	**Total past due but not impaired** £	**Past due and impaired** £	**Neither past due nor impaired** £	**Total** £
Insurance receivables	-	-	-	-	-	-	867,120	867,120
Reinsurers' share of claims outstanding	-	-	-	-	-	-	6,023	6,023
Loans and other receivables	-	-	-	-	-	-	34,225	34,225

Age analysis of assets past due/impaired 2017	<31 days £	31 to 60 days £	61 to 90 days £	>90 days £	Total past due but not impaired £	Past due and impaired £	Neither past due nor impaired £	Total £
Insurance receivables	-	-	-	-	-	-	1,049,408	1,049,408
Reinsurers' share of claims outstanding	-	-	-	-	-	-	11,725	11,725
Loans and other receivables	-	-	-	-	-	-	20,318	20,318

6. Risk management and control (continued)

Liquidity risk

Liquidity risk is the risk that the Company cannot make payments as they become due because there are insufficient assets in cash form.

Sources of liquidity risk have been identified and systems are in place to measure, monitor and control liquidity exposures. These are documented in liquidity policies.

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

	2018			2017		
Maturity profile of financial assets	**Within 1 year**	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£	**£**	**£**	£	£	£
Financial Assets						
- Fair value through income	**3,827,000**	**-**	**3,827,000**	3,558,000	-	3,558,000
Loans and other receivables	**34,225**	**-**	**34,225**	20,318	-	20,318
Reinsurers' share of claims outstanding	**6,023**	**-**	**6,023**	11,725	-	11,725
Insurance receivables	**309,507**	**557,613**	**867,120**	354,718	694,690	1,049,408
Cash and cash equivalents	**9,810**	**-**	**9,810**	10,274	-	10,274
	4,186,565	**557,613**	**4,744,178**	3,955,035	694,690	4,649,725

The table below summarises the maturity profile of the financial liabilities and equity of the Company based on remaining undiscounted obligations:

Maturity profile of financial liabilities 2018	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	£	**£**	**£**	**£**	**£**
General insurance contract liabilities	**26,290**	**-**	**-**	**-**	**26,290**
Insurance payables	**279,558**	**-**	**-**	**-**	**279,558**
Trade and other payables	**7,416**	**-**	**-**	**-**	**7,416**
	313,264	**-**	**-**	**-**	**313,264**

Maturity profile of financial liabilities 2017	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	£	£	£	£	£
General insurance contract liabilities	156,672	-	-	-	156,672
Insurance payables	335,329	-	-	-	335,329
Trade and other payables	30,671	-	-	-	30,671
	522,672	-	-	-	522,672

6. Risk management and control (continued)

Fair value estimation
The following fair value estimation table presents the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2018.

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

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

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

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

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

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

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

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

Any changes to fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income with the exception of investment contract liabilities where the movement is recognised within the gross change in contract liabilities.

6. Risk management and control (continued)

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

	2018				2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£	**£**	**£**	**£**	£	£	£	£
Fair value through income								
Shares, other variable yield securities and units in unit trusts	**3,827,000**	**-**	**-**	**3,827,000**	3,558,000	-	-	3,558,000
	3,827,000	**-**	**-**	**3,827,000**	3,558,000	-	-	3,558,000

Group risk
Group risk is the risk of contagion incurred from its membership of a group of firms. The LVFS Group Executive Risk Committee oversees the management of such risks.

The Company has not identified any significant group risks.

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

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

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

The strategic risks of the business are assessed and managed by the business risk committees which then report these and other significant risks to the LVFS Group Executive Risk Committee, where the risks are reviewed and challenged. The LVFS Chief Risk Officer reports on a group basis all strategic risks to the LVFS board's risk committee.

7. Net premium revenue

	2018	2017
	£	£
Insurance contracts		
Premiums written	**144,216**	289,008
Change in unearned premium reserve	**199,205**	55,170
Premium revenue arising from insurance contracts issued	**343,421**	344,178
Reinsurance contracts		
Premiums payable	**(40,376)**	(93,136)
Change in unearned premium reserve	**(55,771)**	(16,090)
Premium revenue ceded to reinsurers on insurance contracts issued	**(96,147)**	(109,226)
Net premium revenue	**247,274**	234,952

8. Investment income

	2018	2017
	£	£
Income from investments and cash and cash equivalents		
- Investment income	**20,747**	8,936
	20,747	8,936

9. Insurance claims and loss adjustment expenses

	2018	2017
	£	£
Gross insurance claims		
Claims paid during the year	**307,839**	410,072
Movement in claims liabilities	**(130,382)**	40,992
	177,457	451,064
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(122,079)**	(183,924)
Movement in reinsurers' share of claims liabilities	**5,702**	42,935
	(116,377)	(140,989)
Net insurance claims	**61,080**	310,075

10. Other operating and administrative expenses

	2018	2017
	£	£
Acquisition expenses	**(216,664)**	77,800
Movement in deferred acquisition costs	**233,195**	100,225
Administrative expenses	**29,887**	34,159
	46,418	212,184

During 2018 the company recognised a one-off credit in the income statement of £169,000. This credit reflects amounts due from LVFS in relation to commission costs for certain historic cancelled policies. The cancellation of these policies had not been previously been recognised and therefore there has been an associated write off to deferred acquisition costs for the commission expense deferred in relation to these policies. There has been a resulting release of the unexpired risk provision of £125,000. An element of these cancelled policies relate to previous periods, however the impact to the financial statements as a whole is not considered to be material and therefore the comparative figures have not been restated.

11. Auditors' remuneration

	2018	2017
	£	£
Audit of the Company	**8,000**	5,000
Audit related assurance services	**10,000**	8,000
	18,000	13,000

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

Liverpool Victoria Friendly Society Limited, the parent society, is responsible for the management and administration of the Company. The audit remuneration, in respect of services to the Company, is borne by LVFS.

12. Directors' emoluments

The Directors of the Company are remunerated by LVFS.

The details of Directors' emoluments below include the total emoluments of those Directors who have a role in the wider LVFS group, as well as providing service to the Company. It is not possible to make an accurate apportionment of these emoluments in respect of each of the subsidiaries within the LVFS group.

The aggregate amount of Directors' emoluments was as follows:

	2018	2017
	£	£
a) Aggregate emoluments	**1,844,000**	4,045,000

b) Emoluments of the Directors were as follows:

	Fees and Salaries	Bonus	Deferred bonus *	Other benefits	Long term incentive plan	2018 Total	2017 Total
	£	£	£	£	£	£	£
Highest paid Director	**396,000**	**180,000**	-	**74,000**	-	**650,000**	1,719,000
All Directors	**1,090,000**	**552,000**	-	**202,000**	-	**1,844,000**	4,045,000

Other benefits include payments in lieu of pension contributions, temporary living costs, car allowance, medical insurance, health screening, income protection cover and life cover.

LVFS has made no contributions to personal pension arrangements during 2018 or 2017.

Further details on the Long Term Incentive Plan are disclosed within the Financial Statements of LVFS.

c) Pension arrangements
The LV= Employee Pension Scheme is administered at LVFS group level and incorporates both a defined benefit section and defined contribution section. The defined benefit section was closed to future accrual in 2013 at which point existing members were eligible to join the defined contribution section.

In 2018 there were £10,556 of contributions to the defined contribution section (2017: £4,863).

Further details of the LV= Employee Pension Scheme are disclosed within the financial statements of LVFS.

	2018	2017
Deferred pension at end of period	£	£
All Directors	**38,000**	85,000

13. Income tax (charge)/credit

a) Current tax

	2018 £	2017 £
Current tax		
Corporation tax	(30,499)	53,577
Total current tax	**(30,499)**	53,577
Total income tax (charge)/credit	**(30,499)**	53,577

b) Reconciliation of tax credit

The tax assessed for the period is equal to the effective rate of corporation tax in the UK (19%) (2017: 19.25%)

	2018 £	2017 £
Profit/(loss)before tax	160,523	(278,371)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(30,499)	53,577
Total income tax (charge)/credit for the year	**(30,499)**	53,577

14. Deferred acquisition costs

	2018 £	2017 £
At 1 January	527,103	627,328
Acquisition expenses (released)/deferred	(216,664)	77,800
Amortisation	(16,531)	(178,025)
At 31 December	**293,908**	527,103

15. Financial assets

	2018 £	2017 £
Fair value through income		
Shares, other variable yield securities and units in unit trusts	3,827,000	3,558,000
	3,827,000	3,558,000

16. Loans and other receivables

	2018	2017
	£	£
Other taxes and social security costs	-	20,318
Amounts due from group undertakings	34,225	-
	34,225	20,318

17. Reinsurance assets

	2018	2017
	£	£
Reinsurers' share of provision for unearned premiums	279,558	335,329
Reinsurers' share of claims outstanding	6,023	11,725
	285,581	347,054

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

18. Insurance receivables

	2018	2017
	£	£
Receivables arising from insurance and reinsurance contracts		
- Due from policy holders	867,120	1,049,408
	867,120	1,049,408

19. Cash and cash equivalents

	2018	2017
	£	£
Bank balances	9,810	10,274
Cash and cash equivalents per Statement of Financial Position	9,810	10,274
Cash and cash equivalents per Statement of Cash Flows	9,810	10,274

20. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2018			2017		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
General insurance claims liabilities	**26,290**	**(6,023)**	**20,267**	156,672	(11,725)	144,947
General insurance unearned premiums	**867,120**	**(279,558)**	**587,562**	1,066,325	(335,329)	730,996
	893,410	**(285,581)**	**607,829**	1,222,997	(347,054)	875,943

b) Movement in general insurance claims liabilities

	2018			2017		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
OCR	**156,672**	**(11,725)**	**144,947**	115,680	(54,660)	61,020
Balance at 1 January	**156,672**	**(11,725)**	**144,947**	115,680	(54,660)	61,020
Claims incurred in the current accident year	**166,457**	**(116,377)**	**50,080**	315,064	(140,989)	174,075
Claims paid during the year	**(307,839)**	**122,079**	**(185,760)**	(410,072)	183,924	(226,148)
Unexpired risk provision	**11,000**	**-**	**11,000**	136,000	-	136,000
	(130,382)	**5,702**	**(124,680)**	40,992	42,935	83,927
Balance at 31 December	**26,290**	**(6,023)**	**20,267**	156,672	(11,725)	144,947
OCR	**26,290**	**(6,023)**	**20,267**	156,672	(11,725)	144,947
Balance at 31 December	**26,290**	**(6,023)**	**20,267**	156,672	(11,725)	144,947

c) Movement in general insurance unearned premiums

	2018			2017		
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Balance at 1 January	**1,066,325**	**(335,329)**	**730,996**	1,121,495	(351,419)	770,076
Premiums written in the year	**144,216**	**(40,376)**	**103,840**	289,008	(93,136)	195,872
Premiums earned during the year	**(343,421)**	**96,147**	**(247,274)**	(344,178)	109,226	(234,952)
Balance at 31 December	**867,120**	**(279,558)**	**587,562**	1,066,325	(335,329)	730,996

20. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for products administered on the main underwriting system are provided below. These products represent over 70% of the Company's liabilities.

Outstanding Claims Reserve ('OCR')

The purpose of the OCR is to ensure adequate reserves are in place for known claims. It is calculated by aggregating the case reserves for all known claims.

Incurred But Not Reported Reserve ('IBNR')

The purpose of an IBNR reserve is to reflect the additional claims cost from claims incurred but not reported before the Statement of Financial Position date, known as 'pure IBNR' and the cost of any over or understatement in the OCR, known as Incurred But Not Enough Reported ('IBNER'). As claims are notified in advance of the deferred period, no IBNR provision is required.

Unearned Premium Reserve ('UPR')

The UPR is that proportion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position date. This calculation is based on a monthly pro-rata basis and forms part of the insurance contract liabilities balance in the Statement of Financial Position.

Unexpired Risk Reserve ('URR')

If the estimated cost of claims and expenses resulting from claims exceeds the unearned premium reserve, then an unexpired risk reserve is created equal to this excess. This is a provision for an expected loss. The expected costs are estimated from the claims ratio, estimated changes in the level of claims, the effect of reinsurance (which may significantly offset the cost of claims) and the cost of processing claims.

There has been a release of the URR in 2018 primarily due to the reimbursement of commission costs for certain historic cancelled policies.

21. Current tax (liability)/asset

	2018 £	2017 £
At 1 January	**53,577**	27,609
Amounts recorded in the Statement of Comprehensive Income	**(30,499)**	53,577
Group relief received	**(53,577)**	(27,609)
At 31 December	**(30,499)**	53,577

22. Insurance payables

	2018 £	2017 £
Due to reinsurers	**279,558**	335,329
	279,558	335,329

23. Trade and other payables

	2018 £	2017 £
Amounts owed to group undertakings	**-**	30,671
Other taxes and social security costs	**7,416**	-
	7,416	30,671

24. Called up Share capital

	2018	2017
	£	£
Ordinary shares, allotted and fully paid		
1,000,000 (2017: 1,000,000) ordinary shares of £1 each	**1,000,000**	1,000,000

25. Capital reserve

	2018	2017
	£	£
Balance at 1 January	**4,000,000**	4,000,000
Balance at 31 December	**4,000,000**	4,000,000

The reserve was created to receive capital contributions from its parent company LVFS, in order to provide regulatory capital.

The capital reserve is distributable in future periods, subject to the provisions of the Companies Act 2006.

26. Accumulated losses

	2018	2017
	£	£
Balance at 1 January	**(1,023,263)**	(798,469)
Profit / (Loss) for the year	**130,024**	(224,794)
Balance at 31 December	**(893,239)**	(1,023,263)

27. Cash generated from/(used in) operating activities

	2018	2017
	£	£
Loss before tax	**160,523**	(278,371)
Investment income	**(20,747)**	(8,936)
Non-cash items		
Movement in deferred acquisition costs	**233,195**	100,225
Changes in working capital		
(Increase)/Decrease in loans and other receivables	**(13,907)**	107,916
Decrease in reinsurance assets	**61,473**	59,025
Decrease in insurance receivables	**182,288**	99,843
(Decrease) in insurance contract liabilities	**(329,587)**	(14,178)
Decrease in insurance payables	**(55,771)**	(16,090)
(Decrease)/Increase in trade and other payables	**(23,255)**	24,680
Cash generated from operating activities	**194,212**	74,114

28. Related party transactions

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

Key management personnel of the Group include all Directors, executive and non-executive, and senior management (the Board and the Executive Committee).

The summary of the compensation of key management personnel for the year is as follows:

	2018	2017
	£	£
Short-term employee benefits	**1,844,000**	2,749,000
Post employee benefits	**11,000**	5,000
Other long-term benefits	**-**	1,296,000
	1,855,000	4,050,000

The following transactions have taken place between the Company and other LV group companies:

	2018	2017
	£000	£000
Administration charges	**29,887**	34,159
	29,887	34,159

Balances outstanding between the Company and other LV= group companies:

	2018	2017
	£	£
Receivable by the Company from LVFS/(Payable by the Company to LVFS)	**34,225**	(30,671)
	34,225	(30,671)

29. Ultimate parent company

The ultimate and immediate parent company is Liverpool Victoria Friendly Society Limited, a UK-incorporated friendly society registered under the Friendly Societies Act 1992.

The largest and smallest company whose financial statements this company is consolidated into is Liverpool Victoria Friendly Society Limited. The consolidated financial statements of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from:

The Company Secretary
County Gates
Bournemouth
BH1 2NF

or at www.lv.com/about-us/company-information/returns/reports-accounts