COMPANY REGISTRATION NUMBER: 03730662

HIGHWAY
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors
D B Barral
A R Cook
J M Dye
R O Hudson
K P Wenzel
R A Rowney
S Treloar
D S Neave
B D Smith Appointed 01 November 2018

Company Secretary
R S Small Resigned 03 September 2018
M P Jones Appointed 31 October 2018

Registered office
Frizzell House
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 after tax for the year attributable to the owners of the parent is £3,693,000 (2017: £27,182,000) as set out on page 18 . The Directors have declared and paid £nil in the current year to the parent company as an interim dividend (2017: £74,600,000). No final dividends were proposed or paid (2017: £nil). See note 32 for further details.

2. Principal activities

Highway Insurance Company Limited's ('Company') principal purpose is to carry on general insurance business through broker distribution channels. The primary sources of premium income are from the sale of Motor insurance products. Motor insurance products include Private Car, Specialist Car, Fleet, Motorcycle and Commercial Vehicles.

On 28 December 2017, the Company sold its Commercial broker lines renewal rights to Allianz Insurance plc as part of a wider deal which saw Allianz Holdings plc acquire 49% of Liverpool Victoria General Insurance Group Limited ('LVGIG'), an intermediary parent holding company. As a result the Company ceased writing Commercial broker new business during 2018. The Commercial broker business represents a separate major line of business for the Company and is therefore presented as a discontinued operation. The discontinued operations are therefore shown on one line only in the Statement of Comprehensive Income.

As part of the same 2017 transaction, the Company acquired from Allianz Insurance plc the renewal rights to the Allianz Insurance plc personal lines business for a cost of £1,000,000, which has contributed to premium growth in continuing operations this year.

3. Business review and developments

(a) Results and performance

The 2018 results for the Company show a Profit before taxation from continuing operations of £20,189,000 (2017: £16,495,000). The result reflects favourable prior year reserve releases, which include the impact of a change in the best estimate Ogden Discount Rate following Royal Assent of the Civil Liability Bill. These have been offset by the adverse weather at the start of the year and despite lower investment returns, ended the year £3,694,000 higher than 2017. This has been a period of transition, with the Company transferring the commercial lines of business to Allianz Insurance plc and taking on the personal lines business from Allianz Insurance plc, where we expect to see growth in the future.

2018 ended with LVGIG customers holding almost 5.2m LV= policies (2017: 4.9m) with the Company having 0.8m of these policies, up 33% from 0.6m in 2017, being the personal lines business acquired from Allianz Insurance plc in 2017. In addition, both measures of customer satisfaction, Net Promotor score of 70.1 (2017: 64.0) and UK Customer Satisfaction Index of 10^{th} position (2017: 42^{nd}), have improved substantially year on year.

The following factors have had a material effect on the result for the year (see also (g) Key performance indicators on page 8):

1. Premium written: Market conditions have remained competitive, particularly in Motor where prices were initially driven lower following positive progress towards the Civil Liabilities Bill which will address the Ogden Discount Rate and market wide falls in the number of whiplash claims. Rates then rebounded in the second half due to vehicle repair cost inflation. Overall, the Company saw an increase in premium written on a continuing basis rise by 24.9%. Throughout 2018, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in Direct Home lines of business including the Clear Home product transferred from Allianz, diversifying its reliance upon Motor.

3. Business review and developments (continued)

(a) Results and performance (continued)

2. Underwriting result: The Company's underwriting result from continuing operations remained good during 2018, delivering a combined ratio of 91.1% (2017: 91.7%). The combined ratio has benefitted from favourable prior year experience predominantly from medium and large personal injury claims due to both favourable claim settlements, which had been reserved in line with the -0.75% Ogden Discount Rate and further reductions in case estimates on open claims. The overall prior year releases totalled £26m. The reserves now reflect a change in the assumed future Ogden Discount Rate following Royal Assent of the Civil Liability Bill in December. The best estimate has been set at 0% having previously been held at -0.75%, which has led to a £11m release, (included in the £26m overall release). There has been strong cost control across the whole GI business throughout 2018 and this will continue into 2019, with our expense ratio on a continuing basis 27.6% (2017: 26.3%).

3. Investment returns: As predicted overall investment returns were modest for 2018 these being both impacted by volatile markets and closing out the interest rate swap, which realised a net loss of £3m, as the Company continued to realign its portfolio to hold more corporate and government bonds with a longer duration, it ended the year with significant levels of cash, although much lower than 2017.

   During 2018, the Company continued to re-align its investment strategy, investing in corporate and government bonds with a longer duration and classified these newly acquired investments as Available For Sale ('AFS') investments.

4. Expenditure: As with recent years, the Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses during the year, which despite growing by 20.5%, is much lower than the 33% growth in policies. Nevertheless, investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

5. Claims: During 2018, the Company experienced a severe weather event at the start of 2018, together with higher than expected vehicle repair costs although these were offset during the year by favourable claims experience in prior years. This has led to a much improved claims position, with overall gross claims having reduced by 21% year on year from continuing operations. This includes the impact of the change in the assumed Ogden Discount Rate, as quantified on page 5 section 3a.2 Underwriting result.

6. Reinsurance: In the latter part of 2015 the Company entered into a Loss Portfolio Transfer ('LPT') Agreement resulting in reinsurance of 20% of its booked reserves, and from 1 January 2016 a 20% quota share arrangement on new business. The later arrangement was renewed in 2017 and 2018, and has also been put in place for 2019.

(b) Business environment

The Civil Liability Act received Royal Assent in December 2018 which will result in a new Ogden rate in 2019, with the best estimate reflecting an assumed future rate of 0% compared to the -0.75% previously held.

The year has seen increased uncertainty around Brexit and the eventual outcome. The Board have undertaken a review of the Brexit impacts arising from credible scenarios. Although it is not our central scenario, we have in particular assessed the financial and operational impacts of a No-deal Brexit, with a focus on ensuring that our customers continue to be serviced. These include implementing an on-line solution for issuing Green Cards, providing clear guidance for our customers on LV.com, and reviewing our suppliers and the wider supply chain for resilience. We believe that, should the UK leave without a deal, there could be a negative impact on the cost of vehicle repairs arising from tariffs, exchange rate movements, and delays in the supply of parts. There could also be impacts on the cost and/or the ability to recover vehicles from EU countries (see also page 6 section d for further information).

For some time now UK insurers have been unable to rely on investment returns to deliver as much income, at an acceptable level of risk, as has been generated in the past. Underwriting activities are therefore required to deliver proportionately higher returns in order to maintain a sustainable business for both our shareholders and our customers.

3. Business review and developments (continued)

(c) Strategy

Our vision is to be Britain's best loved, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperforming particularly in the motor market.

The Company aims to deliver attractive and consistent returns to its shareholders.

As a consequence of the new strategic partnership (as referred to in section 2 Principal activities) the Company ceased to write any new Commercial broker business during 2018. The Company will instead concentrate on personal lines and, with the acquisition of the renewal rights for the Allianz Insurance plc personal lines business, expects to leverage the opportunities arising from this.

(d) Principal risks and uncertainties

Pricing: Motor rates reduced early in the year, following positive expectations on the Ogden Discount Rate and market-wide falls in the number of whiplash claims. Rates then rebounded in the second half due to high levels of vehicle repair cost inflation, as well as higher overall claims frequency. We expect the level of claims inflation to reduce in 2019, with continuing vehicle repair inflation offset by further reductions in whiplash claims as a result of changes to Claims Management Company regulation.

Economic Environment: The financial market environment remained volatile during 2018, with the FTSE 100 down over 950 points on the year, ending at 6728.13. Uncertainty over Brexit remained throughout 2018, together with the impact of US v China trade war escalating in December further impacting markets and exchange rates. It is expected that this volatility will remain throughout the early part of 2019 as the negotiations with the EU are finalised with potential impacts on interest rates, credit spreads, yield levels, and equity markets. As a result, the overall investment return is predicted to remain low (by historical standards) and unpredictable for some time to come.

Brexit: There is a risk of a hard or no deal Brexit, where enforced tariffs and potential exchange rate movements could lead to higher claims inflation. In accordance with our reserving policy, we hold a margin above the Actuarial Best Estimate, to allow for future uncertainties such as Brexit. We have assessed the potential impact and likelihood of a no deal Brexit and believe that the amounts held adequately cover this risk in so far as it impacts reserves as at 31 December 2018. (Further information on the assessment done by the Board can be found on page 5 section b).

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

Business Change: The Company is still going through a number of material transformation processes, including a full review of some of its core systems and using systems thinking to develop new ways of working as it continues to prepare for the future. There is also a program of work underway to remove the reliance on the wider Liverpool Victoria Friendly Society ('LVFS') group which provides services by way of a Transitional Services Agreement. Such change carries with it an element of operational risk; however, the Directors mitigate this risk through a disciplined project management approach.

Distribution/Market developments: The influence of the mobile internet and price comparison websites (commonly referred to as "aggregators") continue to transform the UK business environment, although it could be argued that the use of aggregators is now a market norm. The use of artificial intelligence and the need for digital transformation is now at the forefront of how the Company wants to do business with their customers and as such the Company is looking at ways to utilise the technology available. Social media continues to be a feature which influences the way that the Company conducts its business, and is therefore monitored closely by the Company. Insurance specific developments in technology, such as driverless cars, are other potential factors of material market transformation in the future. The Company is ensuring that it is prepared to respond quickly to changing circumstances.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)
Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as is sensible through the purchase of reinsurance protection.

Regulatory: A number of legal and regulatory developments affected the UK insurance market during 2018 and will continue into 2019. These include:

1. Solvency II: The Directors monitor capital requirements on a regular basis to ensure compliance with the standards imposed by its UK regulator, the Prudential Regulatory Authority ('PRA'). As well as quarterly returns to the regulator, the company submitted its Regular Supervisory Report to the regulator in May 2018. The Directors also ensure that any proposed changes to the Solvency II requirements and dates for implementation, such as the new taxonomy, is monitored and implemented in a controlled manner. The Company used the Standard Formula to calculate its capital requirements throughout 2018.

2. Financial Conduct Authority ('FCA'): The FCA continues to publicise its intentions 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, renewal prices 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.

3. Ogden Discount Rate: The Ogden Discount Rate is used by insurance companies to calculate a discounted lump-sum value of the future cost of care for large personal injury claims. On 20 December 2018 the Civil Liability Bill received Royal Assent and is thus the Civil Liability Act, with a revised Ogden Discount Rate expected to be announced in the summer of 2019. The Act should ensure a more proportional rate is applied to lump sum settlements for personal injury claims as well as providing a framework for future reviews to rate. Whilst the revised rate is not yet known the Company anticipates an increase from the current legislative rate of -0.75%, with the best estimate reserves being held at the equivalent of a 0% Ogden Discount Rate. The rationale utilised in setting the best estimate rate has included: a review of the opinions and papers provided to date by the Government Actuarial Department (GAD), the expected real returns from appropriate portfolios of assets and the canvassing of opinions from the in house SMEs.

4. 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 Group undertook an extensive programme and completed the first stage of compliance requirements by the 2018 deadline, ensuring systems and processes only capture the essential data and minimising the time data is held.

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

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

At the date of signing, the outcome of the Brexit negotiations with the EU is uncertain however the Company expects to continue to deliver underwriting profits in 2019 through the price increases implemented in 2018, while retaining its focus on high levels of customer service and delivering fair customer outcomes.

(f) Significant post year end events
There were no significant post year end events to report.

3. Business review and developments (continued)

(g) Key performance indicators ('KPIs')

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

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

KPI	2018	2017	Comments
Premiums written	£299.5m	£239.7m	Premium written has increased year on year on a continuing basis, this is despite operating in a very competitive market with the Company keeping good underwriting and pricing discipline. This includes the personal lines business as a result of the renewal rights being acquired from Allianz Insurance plc at the end of 2017.
Underwriting loss ratio	63.5%	65.4%	Showing a year on year decrease, the overall reported loss ratio has improved due to favourable prior years' claims experience.
Expense ratio *	27.6%	26.3%	The year on year expense ratio is in line with expectation.
Combined ratio	91.1%	91.7%	An overall combined ratio of 91.1% has improved and is being driven by an improvement in the underwriting loss ratio.
Investment return	£2.4m	£5.4m	The total investment return for 2018, includes elements of the portfolio which have been classified as Available For Sale, in line with the Company's updated investment strategy. Unrealised gains and losses on these assets are not put through the profit or loss statement and therefore are not included within the 2018 investment return.
Net assets	£246.5m	£214.9m	Net assets have increased by £31.6m following a capital injection of £31.0m from its parent to improve the Solvency II capital cover.

* Expense ratio excludes amortisation of goodwill, Group strategic initiatives and investment management costs, but includes ancillary income derived from the sale of principal products.

The Company also uses a range of non-financial KPIs, which are disclosed and managed at the ultimate parent company level.

On behalf of the Board of Directors

S. Treloar

S Treloar
Director
21 March 2019

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.
- Significant post Balance Sheet events.

1. Directors and their interests

The present members of the Board and the members who were in office during the year and up to the date of signing the financial statements are listed on page 3.

2. Parent company

The Company is a wholly owned subsidiary of Highway Insurance Group ('HIG'). The ultimate parent company is Liverpool Victoria Friendly Society Limited ('LVFS'), an incorporated Friendly Society registered under the Friendly Societies Act 1992.

During 2017, the intermediate holding company, LV Capital plc sold a 49% stake in LVGIG to Allianz Holdings plc.

3. Employees

The Company did not directly employ any staff during 2018. Instead it utilised the staff of LVGIG and premises of LVFS in carrying out its activities. Staff costs were recharged from LVGIG through a management charge and cost of premises were paid to LVFS under the Transitional Services Agreement ('TSA').

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 also purchased and maintained throughout the year on behalf of its subsidiaries Directors' and Officers' Liability Insurance in respect of the Company and its Directors. It is available for inspection at the registered office of the Company details of which are provided on page 3.

5. Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with 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 the financial statements, the directors are required to:

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

The directors are 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 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.

5. Directors' responsibilities statement (continued)

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

6. Directors confirmations

In the case of each Director in office at the date of the Directors' report's approved:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all 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.

A resolution for the re-appointment of PricewaterhouseCoopers LLP ('PwC') as auditor for LVFS and its subsidiaries was passed at the 2018 AGM.

Approved by the Board of Directors and signed by order of the Board

M P Jones
Company Secretary

21 March 2019

Report on the audit of the financial statements

Opinion

In our opinion, Highway Insurance Company 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

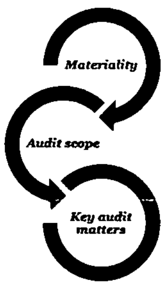
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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 13 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: £4.0m (2017: £3.8m), based on 1% of Gross Written Premiums (GWP) of the combined continuing and discontinued operations.
- 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 gross general insurance claims liabilities (£521m (2017: £549m)).

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and its 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 7 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements of the Company. We also considered those laws and regulations that have a direct impact on the financial statements of the Company such as the Companies Act 2006, the Prudential Regulation Authority's regulations and the 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 such as the valuation of general insurance claims liabilities. Audit procedures performed by the engagement team included:

• Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

• Assessment of matters reported on the Group's whistleblowing register, including the quality of management's investigation of such matters;

• Reviewing correspondence between the company and the Prudential Regulation Authority (PRA) and Financial Conduct Authority in relation to compliance with laws and regulations. We also meet with the PRA to discuss compliance matters during the course of our audit;

• Reviewing relevant Board and meeting minutes including those of the Risk Committee and the Reserving Committee;

• Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;

• Procedures relating to the valuation of general insurance claims liabilities described in the related key audit matters below;

• Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations such as a credit to revenue and debit to the balance sheet (other than to expected accounts being debtors or cash), which may be indicative of the overstatement or manipulation of revenue or a credit to operating expenses and a debit to the balance sheet (other than to expected accounts being prepayments), which may be indicative of the understatement of expenses; 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 general insurance claims liabilities (£521m (2017: £549m)) *Refer to page 27 (accounting policies) and page 62 (notes to*	Our work to address the valuation of the general insurance claims liabilities was supported by our in-house non-life actuarial specialists, and included the

Key audit matter	*How our audit addressed the key audit matter*
the financial statements) The company financial statements include liabilities for the estimated cost of settling general insurance claims. These are included within insurance contract liabilities. We focused on this area due to the significance of these liabilities to the company's balance sheet and because of the inherent subjectivity of their valuation. In particular, we focused on: • The accuracy of claims data used to estimate the claims liabilities, in particular, the completeness of recorded claims and the consistency in setting case estimates; • Whether any changes to the underlying risk profile of the policies written (for example, the concentration of younger drivers or changes to postcode mix) are appropriately reflected in the estimation of claims liabilities; • The methodologies and assumptions used in estimating the costs of claims for general insurance products (mainly motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and • Whether any trends in the underlying claims experience, whether driven by internal or market level factors, have been appropriately reflected in the estimates of future claim costs.	following procedures: • We tested the completeness and accuracy of claims data used in the determination of the libailities; and • We performed independent re-projection testing over 44% of claims liabilities and methodology and assumptions reviews over a further 24% and key indicator checks over 31%. We assessed whether the relevant data source selected by management was appropriate for use in the actuarial estimate of the contracted liabilities. *Specific areas of testing:* ***Completeness of recorded claims and consistency of case estimates*** We tested the reconciliation of source claims data to that used in the actuarial modelling process. In order to assess the completeness of recorded claims, we observed claims being recorded directly onto the claims systems, and tested the operation of the controls over the handling of complaints. We tested the effectiveness of the quality assurance processes over the work of the claims handlers in order to determine whether claims were being assessed on a consistent basis and examined a sample of claims to obtain evidence that they were based on appropriate supporting information. ***Consistency of risk exposure*** We assessed management's assertion that there had been no significant changes in the risk profile for material lines of business by inspecting their analyses, discussing claims trends, examining the characteristics behind claims development, and utilising our own independent trend analyses. ***Methodologies and assumptions*** We carried out a substantial amount of our work on the claims liabilities at 30 September 2018, rolling forward our work to the year-end. We performed independent re-projection testing by independently selecting our own methodology and assumptions to estimate the reserves for some of the most significant components of the claims liabilities. We evaluated the methodology and assumptions used by management to estimate the most judgemental components of the claims liabilities. We took into account any changes to the types of risks underwritten by the business, which could increase the level of uncertainty and judgement in the estimates. Particular focus was given to the future potential Ogden rate change that will impact certain types of personal injury claims where we evaluated management's rationale for changing the assumed discount rate to 0% against government announcements and market practice and performed testing over source data on a sample

Key audit matter	*How our audit addressed the key audit matter*
	basis to be able to conclude on the quantification of the adjustment to reserves resulting from the change in assumption. For lower risk categories of reserves we considered trends in various indicators such as paid to incurred ratios, incurred to ultimate ratios and other Key Performance Indicators ("KPIs"). Where we felt it was appropriate, we performed independent calculations to quantify the impact of differences between management's actuarial analysis or assumptions and those which we would have conducted or selected ourselves based on our understanding of market trends and the particular circumstances of the group. ***Trends in the underlying claims experience*** We considered the run-off of prior year liabilities, the sensitivity of the liabilities to alternative methods and assumptions and, where relevant, industry benchmarking. We also examined trends in ratios driven by internal or market level factors, including those between the initial case estimates and the final costs of settlement. *Based on the work performed, no evidence was identified to suggest issues with respect to the completeness and accuracy of claims data. Furthermore, we found the methodology and assumptions used in estimating the costs of claims were appropriate and supported by the evidence we obtained.*

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.

Recognising that this trading entity is material to the Liverpool Victoria Friendly Society Limited Group, it was audited by the Group engagement team. In establishing the overall approach to the Group audit, we determine the type of work that we needed to perform at each entity to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as whole and the individual entity level financial statements.

In addition to the Group's head offices in Bournemouth, we visited two other locations for the purposes of the Company audit. Our testing at those other locations primarily focused on understanding the systems and controls in place over the recording and processing of new and renewal business and claims.

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	£4.0m (2017: £3.8m).
How we determined it	1% of Gross Written Premiums (GWP) of the combined continuing and discontinued operations.
Rationale for benchmark applied	Gross Written Premiums (GWP) is a key metric used by management and stakeholders to assess the performance of the entity, it has been relatively stable year on year and revenue is a generally accepted auditing benchmark. Furthermore, in our professional judgement, we consider that using gross written premiums as a benchmark gives a level of materiality that is appropriate given the size and risk profile of the business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £200,000 (2017: £190,000) 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 Directors' Responsibilities Statement set out on page 9 and 10, 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 2009 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2009 to 31 December 2018.

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

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

CONTINUING OPERATIONS		2018	2017
	Note	£000	£000
Insurance contract premium revenue	5	**266,009**	234,704
Insurance contract premium ceded to reinsurers	5	**(61,117)**	(51,326)
Net premium revenue		**204,892**	183,378
Investment income	6	**12,051**	12,740
Net losses on investments	7	**(9,692)**	(7,349)
Other income	8	**3,707**	346
Total income		**210,958**	189,115
Insurance claims and loss adjustment expenses	9	**(143,038)**	(181,002)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**12,947**	58,809
Net insurance claims		**(130,091)**	(122,193)
Finance costs	10	**(360)**	(362)
Other operating and administrative expenses	11	**(60,318)**	(50,065)
Total claims and expenses		**(190,769)**	(172,620)
Profit before tax		**20,189**	16,495
Income tax expense	15	**(3,688)**	(2,750)
Profit for the year from continuing operations		**16,501**	13,745
(Loss)/Profit for the year from discontinued operations	12	**(12,808)**	13,437
Profit for the year attributable to owners of the parent		**3,693**	27,182
Other Comprehensive Expense			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	34	**(3,677)**	-
Income tax relating to these items	34	**625**	-
Other comprehensive expense for the year, net of tax		**(3,052)**	-
Total comprehensive income for the year		**641**	27,182

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

The notes on pages 22 to 68 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	Available -for-sale reserve	Retained earnings	Capital reserve	Total Equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2018		**75,000**	**-**	**64,502**	**75,400**	**214,902**
Profit for the year	33	-	-	3,693	-	3,693
Items that may be reclassified to profit or loss						
Fair value losses on AFS investments	34	-	(3,677)	-	-	(3,677)
Tax on these items	34	-	625	-	-	625
Total comprehensive income for the year		**-**	**(3,052)**	**3,693**	**-**	**641**
Capital contributions	32	-	-	-	31,000	31,000
		-	**-**	**-**	**31,000**	**31,000**
Balance at 31 December 2018		**75,000**	**(3,052)**	**68,195**	**106,400**	**246,543**

		Attributable to equity holder of the Company				
		Share capital	Available-for-sale reserve	Retained earnings	Capital reserve	Total Equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2017		75,000	-	37,320	150,000	262,320
Profit for the year	33	-	-	27,182	-	27,182
Total comprehensive income for the year		-	-	27,182	-	27,182
Dividend	32	-	-	-	(74,600)	(74,600)
		-	-	-	(74,600)	(74,600)
Balance at 31 December 2017		75,000	-	64,502	75,400	214,902

The notes on pages 22 to 68 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Assets			
Intangible assets	16	**950**	1,000
Deferred tax asset	17	**710**	108
Prepayments and accrued income	19	**8,475**	6,957
Deferred acquisition costs	20	**29,315**	29,741
Financial assets			
- Fair value through profit or loss assets	21(a)	**291,754**	439,044
- Available for sale financial assets	21(b)	**280,101**	-
Derivative financial instruments	22	**414**	580
Loans and other receivables	23	**42,650**	71,069
Reinsurance assets	24	**190,635**	221,886
Insurance receivables	25	**45,222**	52,338
Cash and cash equivalents (excluding bank overdrafts)	26	**126,780**	184,659
Total assets		**1,017,006**	1,007,382
Liabilities			
Insurance Contract Liabilities	27	**714,683**	742,862
Current tax liability	18	**62**	1,789
Derivative financial instruments	22	**-**	2,037
Other financial liabilities	28	**10,770**	10,652
Insurance payables	29	**8,034**	6,491
Trade and other payables	30	**36,914**	28,649
Total liabilities		**770,463**	792,480
Equity			
Share capital	31	**75,000**	75,000
Capital reserve	32	**106,400**	75,400
Available-for-sale reserve	34	**(3,052)**	-
Retained earnings	33	**68,195**	64,502
Total equity		**246,543**	214,902
Total liabilities and equity		**1,017,006**	1,007,382

The notes on pages 22 to 68 are an integral part of the financial statements.

These financial statements on pages 18 to 68 were approved by the Board of Directors on 21 March 2019.

Signed on behalf of the Board of Directors

K P Wenzel
Director
21 March 2019

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Cash and cash equivalents at 1 January	26	**181,780**	100,580
Cash flows arising from operating activities			
Cash generated from operations	35	**46,482**	29,322
Net decrease in investments at fair value through profit or loss		**131,971**	87,306
Net increase of available for sale securities		**(283,778)**	-
Dividends received		**1,205**	2,409
Interest received		**15,013**	16,325
Finance cost paid	10	**(360)**	(362)
Income tax (paid)/recovered	18	**(2,313)**	1,000
Net cash (used in)/generated from operating activities		**(91,780)**	136,000
Cash flows from financing activities			
Dividends paid to Highway Insurance Group Limited	32	**-**	(74,600)
Capital Contribution	32	**31,000**	-
Net cash generated from/(used in) financing activities		**31,000**	(74,600)
Cash flows from investing activities			
Proceeds from the sale of the Commercial Broker renewal rights	12	**-**	20,800
Purchase of the Personal lines renewal rights from Allianz	16	**-**	(1,000)
Net cash generated from Investing activities		**-**	19,800
Net (decrease)/increase in cash and cash equivalents		**(60,780)**	81,200
Cash and cash equivalents at 31 December	26	**121,000**	181,780

Cash flows from discontinued operations are disclosed in note 12.

The notes on pages 22 to 68 are an integral part of the financial statements.

1. General information

The Company is a private company, limited by shares and incorporated and domiciled in England, United Kingdom. The Company underwrites general insurance risks, including motor risks. All contracts of insurance are written in the United Kingdom and Republic of Ireland.

2. Accounting policies

BASIS OF PRESENTATION
These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee 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.

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. As such, the accounting for insurance contracts is in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006 and withdrawn in December 2015. The Company continues to apply this Statement of Recommended Practice.

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

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

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

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

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

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

2. Accounting policies (continued)

Investment income
Investment income includes dividends, interest from investments at fair value through profit and loss ('FVTPL'), interest from available-for-sale ('AFS') investments and interest on loans and receivables. Dividends are included on an ex-dividend basis. Interest receivable from investments at FVTPL is accounted for on an accruals basis. Interest on AFS debt instruments and loans and receivables is calculated using the effective interest method. Investment expenses are accounted for as incurred.

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

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

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

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 expense
Income tax expense recorded in the Statement of Comprehensive Income represents the current year corporation tax charge. Corporation tax is charged on trading profits arising in the year.

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

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

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

2. Accounting policies (continued)

Financial assets
Investments are classified in the following categories: financial assets or financial liabilities at FVTPL, loans and other receivables and 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.

During 2018 management entered a new investment strategy whereby all future investments in debt and other fixed income securities should be classified as AFS. The Company undertook a sale and purchase program during 2018 to dispose of the majority of its existing debt and other fixed income securities that were classified as FVTPL and replace these holdings with new investments classified as AFS. The remaining debt and other fixed income securities recognised at FVTPL are expected to either mature or be sold during 2019.

The IFRS "fair value hierarchy" levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 4.

Financial assets and liabilities at fair value through profit or loss
This category has two sub categories:
- Financial assets and liabilities held for trading; and
- Those designated at FVTPL at inception.

Derivatives are classified at FVTPL as they are held for trading.

Financial assets designated at FVTPL 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. These assets are measured at market prices, or prices consistent with market ratings should no price be available. Day one gains 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.

Financial assets at FVTPL include listed and unlisted investments, units in authorised unit trusts and other investments.

Available for sale financial assets
AFS investments include listed and unlisted debt securities. AFS investments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

AFS investments are initially recognised at fair value plus directly related transaction costs. They are subsequently carried at fair value. Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the Statement of Comprehensive Income, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity (AFS reserve) until disposal. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Statement of Comprehensive Income as 'net realised gains and losses'.

2. Accounting policies (continued)

Impairment of financial assets

The carrying values of financial assets not carried at fair value through profit or loss are reviewed at each Statement of Financial Position date. If the carrying value of a Trade receivable or Loans and Other receivable is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the Statement of Comprehensive Income.

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

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

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.

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.

Other intangibles

Where an acquisition takes place that gives access to existing customers or distribution channels, then the present value of these is recognised as an intangible asset. The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles is determined by reference to acquired business, considering factors such as the remaining terms of agreements, the normal lives of related products and the competitive position, and lies within the range of 10 to 20 years.

Deferred acquisition costs

The proportion of the costs of acquiring new general insurance business which relate to unearned premiums are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues.

Acquisition costs comprise all allowable costs incurred in writing new contracts. Deferred acquisition costs ('DAC') are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income.

Deferred acquisition costs are all due within one year for both 2017 and 2018. Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses.

2. Accounting policies (continued)

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 is immediately charged to the Statement of Comprehensive Income and an unexpired risk reserve established.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. There are no designated hedging relationships that qualify for hedge accounting; all are classified as held for trading. Derivatives are settled on a gross basis.

Changes in the fair value of derivative instruments are recognised immediately in gains or losses on investments in the Statement of Comprehensive Income for the period. Realised gains or losses are similarly taken to the Statement of Comprehensive Income on occurrence.

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

a) Cash collateral
Cash collateral received, which is not legally segregated from the Company, is recognised as an asset with a corresponding liability for its repayment in the Statement of Financial Position.

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

b) Non-cash collateral
Non-cash collateral received against derivative contracts where the counterparty is not in default, that is neither sold nor repledged, is not recognised in the Statement of Financial Position. Non-cash collateral pledged against derivative contracts where the Company is not in default is not derecognised from the Statement of Financial Position and remains within the appropriate asset classification.

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. Loans include reverse repurchase agreements and represent the consideration paid to the borrower. Other receivables are recognised when due.

2. Accounting policies (continued)

Insurance receivables and payables

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

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

Cash and cash equivalents

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

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

Claims and insurance contract liabilities

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

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

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of Periodic Payment Orders ('PPOs'), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

2. Accounting policies (continued)

Provisions
Provisions are recognised where there is 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 some or all of a provision is expected to be reimbursed it is recognised as a separate asset when the reimbursement is certain.

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The expense relating to provisions is presented in the Statement of Comprehensive Income.

Subordinated liabilities
Subordinated liabilities are initially measured at the fair value of the proceeds less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost. The transaction costs are amortised over the period to the expected redemption date on an effective interest rate basis. The amortisation charge is included in the Statement of Comprehensive Income within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value.

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

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

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

Dividend distribution
Dividend distribution to the Company's equity shareholder is recognised in equity in the period in which the dividend is paid.

Disposal groups held for sale and discontinued operations
Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets in the Statement of Financial Position.

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

2. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES

(i) New and amended standards adopted

The following new and amended standards that have been adopted by the EU for accounting periods beginning on or after 1 January 2018 have been adopted by the Company:

a) New standards and interpretations

IFRS 15 'Revenue from contracts with customers'
IFRS 15 replaces IAS 18 'Revenue' and applies to non-insurance revenue, providing a principles based approach for revenue recognition that is underpinned by the achievement of performance obligations.

At 31 December 2018 the Company had an immaterial amount (2017: immaterial) of revenue that is relevant for this standard.

The Company's previous accounting policy under IAS 18 for fee and commission income to recognise revenue over time as the services are provided is consistent with the requirements of IFRS 15, and accordingly no adjustments or restatement of prior periods have been necessary.

IFRIC 22 'Foreign currency transactions and advance consideration'
IFRIC 22 clarifies that advanced payments for goods or services should be recognised using the spot rate on the date of the advanced payment / receipt and not retranslated at the date that the associated IFRS balance is recognised. This is consistent with how such transactions are accounted for by the Company, therefore this amendment does not impact the Company's financial statements.

b) Amendments to standards

Amendment to IFRS 4 'Insurance contracts': Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'
The amendment provides two approaches that can be applied by eligible insurers to address concerns arising from the different effective dates of IFRS 9 and IFRS 17 '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.

2. Accounting policies (continued)

b) Amendments to standards (continued)

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). Reassessment of the predominance ratio test is required when an entity begins or ceases to perform an activity that is significant to its operations, including terminating a business line.

The predominance ratio test 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 FVTPL applying IAS 39 and other liabilities that are connected to these insurance and investment contracts.

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

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

The Company met the criteria to apply the temporary exemption from IFRS 9 upon initial performance of the predominance ratio test at 31 December 2015. The carrying value of liabilities within IFRS 4's scope at 31 December 2015 was significant at 96% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance. On 29 December 2017 the Company sold the renewal rights associated with its Commercial Lines business to Allianz; the Commercial Lines business was a significant component of the Company's operations and as a result the Commercial Lines results were presented as a discontinued operation in the 31 December 2017 financial statements. This transaction did not impact the predominance ratio test at 31 December 2017 as only the new business renewal rights were sold. The predominance ratio test has been reassessed at 31 December 2018. The carrying value of liabilities within IFRS 4's scope at 31 December 2018 continued to be significant at 93% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance.

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 ('SPPI') on the principal amount outstanding and not categorised as FVTPL due to either being managed on a fair value basis or held for trading.

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:

2. Accounting policies (continued)

b) Amendments to standards (continued)

Financial assets	Fair value at 31 December 2018 £000	Fair value movement in the year £000
1) Financial assets that meet the SPPI criteria and not classified as FVTPL		
Available for sale financial assets		
Debt securities	280,101	(3,677)
Loans and other receivables (short-term)*	42,650	-
Insurance receivables (short-term)*	45,222	-
Total	**367,973**	**(3,677)**
2) Other financial assets		
Financial assets at fair value through profit or loss	291,754	(9,591)
Derivative financial instruments	414	(101)
Total	**292,168**	**(9,692)**

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

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

	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Available for sale financial assets						
Debt securities	65,717	65,546	75,071	73,767	-	280,101
Loans and other receivables (short-term)*	-	-	33,333	-	9,317	42,650
Insurance receivables (short-term)*	-	9,291	-	-	35,931	45,222
Total	**65,717**	**74,837**	**108,404**	**73,767**	**45,248**	**367,973**

Note: In the case of financial assets held at amortised cost, the amounts disclosed are the carrying amounts applying IAS 39, before adjusting for any impairment allowances.
The table above includes £45m of short term receivables that are not rated. The fair value of these financial assets at 31 December 2018 is equal to their carrying value.

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

2. Accounting policies (continued)

(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. The impact of this new standard on the Statement of Financial Position and the Statement of Comprehensive Income is currently being assessed.

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.

3. 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. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

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 and the cost of claims incurred but not yet reported (IBNR) to the Company. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of Periodic Payment Orders ('PPOs'), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

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

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

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

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

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

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

During 2017 the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to -0.75% p.a. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term.

On 20 December 2018 the Civil Liability Bill received Royal Assent and is thus the Civil Liability Act, with a revised Ogden Discount Rate expected to be announced in the summer of 2019. The Act should ensure a more proportional rate is applied to lump sum settlements for personal injury claims as well as providing a framework for future reviews of the rate. Whilst the revised rate is not yet known the Company anticipates an increase from the current legislative rate of -0.75% and as such the best estimate has been set at 0%. In order to quantify the impact of this change case reserves were reviewed on a claim-by-claim basis. The best estimate was set with respect to this analysis and also included an allowance for the anticipated change in the reinsurance asset, IBNR reserves and an expectant change in the likelihood of both reported and IBNR claims settling on a PPO basis. Sensitivities showing the impact if the rate is subsequently set at +/- 0.5% can be found on page 39.

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

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

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

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

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

Classification of the Company's contracts with reinsurers as reinsurance contracts
A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

Other
The judgments, estimations and assumptions around financial assets and claims judgments are discussed in note 4.

Treatment of sale of Commercial broker line business
Discontinued operations
The renewal rights of the commercial lines of business, which represented a separate major line of business, were exchanged with Allianz Insurance plc in 2017. As such, they were presented separately as a discontinued operation.

4. Capital management and risk management and control

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

The Company retains capital to meet four key objectives:

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

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

As at 31 December 2018, for the Q4 QRT reporting to the regulator, the company disclosed surplus regulatory capital of £71,112,512 (2017: Annual & Q4 £63,324,417). The 2017 Annual SCR result was published in the LVFS Single Group SFCR in June 2018.

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

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.

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

Insurance risk

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

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

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim (2017: £5.0m per claim).

In addition to the reinsurance contracts described above, the Company has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for the 2015 and prior accident years. The Company has also historically entered into a 20% Quota Share arrangement for the 2016-2018 accident years (each year treated separately). Similarly; an additional 20% Quota Share arrangement has been entered into for the 2019 accident year. Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the LVFS Groups exposure to general insurance concentration risk.

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

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

	2018			2017		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Home	**697**	**(136)**	**561**			
Motor	**358,759**	**(144,950)**	**213,809**	410,396	(179,596)	230,800
Commercial	**161,707**	**(45,386)**	**116,321**	138,261	(42,060)	96,201
	521,163	**(190,472)**	**330,691**	548,657	(221,656)	327,001

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

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

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

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

The Company's reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions, both positively and adversely. An example of such would be a change in the Ogden discount rate. This is the discount rate set by the relevant government bodies and used by courts to calculate lump sum awards in personal injury cases.

The Civil Liability Bill, which sets out the framework in which the Ogden discount rate is set, has now received Royal Assent and is thus now the Civil Liability Act. An updated Ogden discount rate is expected to be announced in the summer of 2019. In light of this the claims provision has been set in anticipation of an increase in the rate, with an assumed 0% being allowed for versus the current legislative rate of -0.75%, leading to a £11m release.

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

Uncertainty in claims estimation is more significant for large Personal Injury claims on both a lump sum and a PPOs basis, which for the latter include annually indexed payments that are typically made over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to changes in this discount benefit. Large lump sum Personal Injury claims are heavily exposed to the Ogden discount rate, as outlined above.

The table below provides a sensitivity analysis of the potential impact of a change on a discounting basis for PPO claims and changes to the Ogden discount rate for lump sum settlements on large Personal Injury claims. The sensitivities allow for a change in the single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Company.

	Increase / (Decrease) in Statement of Comprehensive Income Before tax	Increase / (Decrease) in total equity at 31 December
	2018	**2018**
	£m	**£m**
Impact of a 1% increase in the discount rate used to value PPOs	**3.9**	**3.2**
Impact of a 1% reduction in the discount rate used to value PPOs	**(5.4)**	**(4.4)**
Ogden		
Impact of the Ogden discount rate moving to plus 0.5%	**6.0**	**4.9**
Impact of the Ogden discount rate moving to minus 0.5%	**(7.0)**	**(5.7)**

1. The PPO sensitivities relating to an increase or decrease in the discounting basis used for valuing such claims and illustrates a movement in the time value of money on a net of reinsurance basis.
2. The Ogden discount rate sensitivities provides clarity of the impact on the claims provision if the discount rate were to increase beyond the best estimate assumption of 0% up to 0.5% or down to – 0.5%.
3. The selection of these sensitivities should not be interpreted as a prediction.

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

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

Analysis of claims development – gross of reinsurance

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Initial estimate of gross provision	231.0	247.8	286.4	282.4	241.0	221.3	247.6	266.7	289.8	316.9	
One year later	226.4	274.7	279.6	272.9	222.1	204.9	251.5	253.4	266.0		
Two years later	232.4	283.0	274.6	266.6	222.7	198.7	236.5	240.5			
Three years later	234.5	280.6	272.1	261.2	225.7	195.8	222.1				
Four years later	245.5	275.6	271.2	261.0	227.1	189.5					
Five years later	244.8	282.1	267.0	271.2	221.2						
Six years later	244.3	305.4	267.1	264.3							
Seven years later	240.9	310.4	266.8								
Eight years later	240.5	303.8									
Nine years later	240.6										
Current estimate of cumulative claims	240.6	303.8	266.8	264.3	221.2	189.5	222.1	240.5	266.0	316.9	2,531.7
Cumulative payments to date	(239.8)	(278.7)	(266.0)	(243.3)	(188.4)	(177.3)	(193.6)	(184.8)	(165.5)	(130.9)	(2,068.3)
Liability recognised in the balance sheet for 2009 to 2018 accident years	0.8	25.1	0.8	21.0	32.8	12.2	28.5	55.7	100.5	186.0	463.4
Liability recognised in the balance sheet in respect of prior accident years											53.0
Claims handling provision											4.8
Provision as at 31 December 2018											**521.2**

Analysis of claims development – net of reinsurance

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Initial estimate of net provision	211.4	243.8	283.4	268.1	232.6	219.0	208.9	228.7	210.9	242.9	
One year later	221.1	260.1	277.4	259.7	211.1	188.7	223.4	198.3	201.9		
Two years later	219.0	269.6	272.7	255.2	202.0	190.1	204.4	190.4			
Three years later	220.0	263.7	270.8	244.7	207.1	185.9	193.0				
Four years later	229.6	259.4	269.4	242.1	204.3	177.2					
Five years later	224.9	262.8	265.9	244.2	199.4						
Six years later	223.6	280.2	265.6	243.8							
Seven years later	233.2	280.3	265.0								
Eight years later	230.4	280.4									
Nine years later	230.1										
Current estimate of cumulative claims	230.1	280.4	265.0	243.8	199.4	177.2	193.0	190.4	201.9	242.9	2,224.1
Cumulative payments to date	(229.4)	(273.1)	(264.4)	(234.9)	(181.7)	(167.5)	(171.9)	(147.8)	(132.1)	(103.6)	(1,906.4)
Liability recognised in the balance sheet for 2009 to 2018 accident years	0.7	7.3	0.6	8.9	17.7	9.7	21.1	42.6	69.8	139.3	317.7
Liability recognised in the balance sheet in respect of prior accident years											8.2
Claims handling provision											4.8
Provision as at 31 December 2018											**330.7**

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

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

Limits on the Company's exposure to equities are defined both in aggregate terms and by geography, industry and counterparty. Strategic asset allocation is discussed at the monthly FICo meetings, covering investment return and concentration and to agree any changes required.

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

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

The Company manages interest rate risk by investing certain Fixed Interest Assets in our AFS portfolio, whereby unrealised gains or losses are reflected in the AFS reserves until the asset either matures or is sold, thus reducing the fluctuation on the statutory reporting profits.

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

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

The Company manages credit spread risk by investing certain Fixed Interest Assets in our AFS portfolio, whereby unrealised gains or losses are reflected in the AFS reserves until the asset either matures or is sold, thus reducing the fluctuation on the statutory reporting profits.

Equity risk
The Company hold equities in order to earn competitive relative returns by investing in a diverse portfolio of high quality securities. Holdings are diversified across industries and concentrations in any one company or industry are limited by parameters established by the Investment Committee.

The Company also makes use of derivatives to manage this risk.

Currency risk
The Company operates predominately within the UK, however it has a small amount of currency risk relating to its legacy business which it is not considered material. In addition there is some exposure to foreign currencies through its investment portfolio and financial liabilities. Its main currency exposures are the Euro and the US dollar.

The Company's general policy is to run no foreign exchange risk. However the Company's Investment Managers may from time to time run a small exposure having agreed any such exposure with the Investment Committee. An open Euro position is maintained to hedge the subordinated note (see note 28) and other minor insurance liabilities. The Company purchases forward foreign exchange contracts to hedge the exposure to foreign exchange movements.

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

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

	Impact on profit before tax 2018 £000	**Impact on equity 2018 £000**	Impact on profit before tax 2017 £000	Impact on equity 2017 £000
Interest rate risk				
+ 100 basis points shift in yield curve	**(2,325)**	**(1,883)**	(19,877)	(16,101)
- 50 basis points shift in yield curve	**1,179**	**955**	11,656	9,442
Credit spread risk				
100 basis points widening in all credit spreads	**(1,550)**	**(1,256)**	(6,571)	(5,323)
50 basis points tightening in all credit spreads	**792**	**642**	3,360	2,722

The significant reduction in the sensitivities since 2017, reflects the change in investment strategy over the year, where the majority of bonds are now held as Available for Sale, which means that the impact does not flow through to the profit before tax.

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

The Company's exposure to foreign exchange risk is summarised below:

As at 31 December 2018	**USD £000**	**Euro £000**	**Total £000**
Financial assets at fair value through profit or loss			
Derivative financial instruments	**(1,635)**	**-**	**(1,635)**
Reinsurers' share of insurance contract liabilities	**-**	**9,097**	**9,097**
Cash and cash equivalents	**1,518**	**11,832**	**13,350**
Financial liabilities			
Insurance contracts	**-**	**(12,480)**	**(12,480)**
Other financial liabilities	**-**	**(10,770)**	**(10,770)**
Total exposure	**(117)**	**(2,321)**	**(2,438)**

As at 31 December 2017	USD £000	Euro £000	Total £000
Financial assets at fair value through profit or loss			
Shares, other variable yield securities and units in unit trusts - impairment	136	-	136
Derivative financial instruments	(1,479)	-	(1,479)
Reinsurers' share of insurance contract liabilities	-	11,187	11,187
Cash and cash equivalents	1,214	11,865	13,079
Financial liabilities			
Insurance payables	-	(12,537)	(12,537)
Other financial liabilities	-	(10,652)	(10,652)
Total exposure	(129)	(137)	(266)

The sensitivity of investment assets to a 10% increase/decrease in US Dollar and Euro exchange rates net of derivatives is £11,700 (2017: £12,900) and £232,100 (2017: £4,700) respectively. In determining the percentage rates to use in this sensitivity analysis the movements in the actual market rates of US Dollars and Euro during 2017 were taken into account. The above table incorporates all material currency risk to Profit before tax. Therefore, a 10% increase/decrease across all currencies could impact profit before tax by up to £243,800 (2017: £17,600).

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

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at 31 December 2018 was £35,931,000 (2017: £49,697,000), all of which was not rated.

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

In addition to the above the Company also monitors the debt via the Finance and Investment Committee and provides against older debts.

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

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

Credit risk exposure 2018	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities							
- Fair value through profit or loss assets	33,205	6,282	12,609	52,816	-	-	104,912
- Available for sale financial assets	65,717	65,546	75,071	73,767	-	-	280,101
Cash and cash equivalents	-	43,620	83,160	-	-	-	126,780
Insurance receivables	-	9,291	-	-	-	35,931	45,222
Loans and other receivables	-	-	33,333	-	-	9,317	42,650
Reinsurance assets	-	149,498	40,528	-	-	609	190,635
Total exposure	**98,922**	**274,237**	**244,701**	**126,583**	**-**	**45,857**	**790,300**

Credit risk exposure 2017	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities							
- Fair value through profit or loss assets	98,563	51,040	95,734	135,425	2,164	1,734	384,660
Cash and cash equivalents	-	35,589	102,187	20,886	-	25,997	184,659
Insurance receivables	-	-	2,641	-	-	49,697	52,338
Loans and other receivables	-	-	66,667	-	-	4,402	71,069
Reinsurance assets	-	179,074	38,481	-	-	4,331	221,886
Total exposure	98,563	265,703	305,710	156,311	2,164	86,161	914,612

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

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset in the Statement of Financial Position when the Company intends to apply a current legally enforceable right to offset. Master netting arrangements and cash collateral are utilised by the Company to minimise credit risk exposure.

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

An analysis is included of netting arrangements which meet the offsetting criteria within IAS 32 and are set off in the Statement of Financial Position and also those which do not meet the criteria.

As at 31 December 2018	**Amounts off set**			**Related amounts not off set**		
	Gross assets	**Gross liabilities offset**	**Net amounts presented**	**Financial Instruments**	**Cash Collateral received**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets						
Derivative financial assets	**403**	**-**	**403**	**-**	**(403)**	**-**
Total	**403**	**-**	**403**	**-**	**(403)**	**-**

	Amounts off set			**Related amounts not off set**		
	Gross assets offset	**Gross liabilities**	**Net amounts presented**	**Financial Instruments**	**Cash Collateral pledged**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Bank overdrafts	**1,916**	**(7,696)**	**(5,780)**	**-**	**-**	**(5,780)**
Total	**1,916**	**(7,696)**	**(5,780)**	**-**	**-**	**(5,780)**

As at 31 December 2017	Amounts off set			Related amounts not off set		
	Gross assets	Gross liabilities offset	Net amounts presented	Financial Instruments	Cash Collateral received	Net amount
	£000	£000	£000	£000	£000	£000
Financial assets						
Derivative financial assets	563	-	563	-	-	563
Total	563	-	563	-	-	563

	Amounts off set			Related amounts not off set		
	Gross assets offset	Gross liabilities	Net amounts presented	Financial Instruments	Cash Collateral pledged	Net amount
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Derivative financial liabilities	-	(2,037)	(2,037)	-	1,454	(583)
Bank overdrafts	5,285	(8,164)	(2,879)	-	-	(2,879)
Total	5,285	(10,201)	(4,916)	-	1,454	(3,462)

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

In accordance with IFRS 7 the collateral reported in the table above is limited to the amount reported in the Statement of Financial Position for the associated financial instrument.

As at 31 December 2018, the Company was not holding any counterparty collateral (2017: nil). Total collateral pledged by the Company was £779,000 (2017: £2,455,000) and is split between cash collateral paid of £nil (2017: £850,000) and future margin of cash of £779,000 (2017: £1,605,000)

Collateral posted to Highway Insurance Company Limited by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association ('ISDA') agreement. This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex if such failure is not remedied within 30 days after notice of such failure is given. Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the Company.

The Company reviews the carrying value of its financial assets at each Statement of Financial Position date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income. As at 31 December 2018 £755,000 (2017: £496,000) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The tables below provide 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.

	<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**
Age analysis of assets past due/impaired 2018	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance receivables	**1,100**	**2,044**	**214**	**113**	**3,471**	**755**	**40,996**	**45,222**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**42,650**	**42,650**

	<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
Age analysis of assets past due/impaired 2017	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	3,378	721	241	103	4,443	496	47,399	52,338
Loans and other receivables	-	-	-	-	-	-	71,069	71,069

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

Liquidity risk

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

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

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

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

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

	2018			2017		
Maturity profile of financial assets	**Within 1 year**	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£000	**£000**	**£000**	£000	£000	£000
Financial Assets						
- Fair value through profit or loss assets	**223,269**	**68,485**	**291,754**	111,877	327,167	439,044
- Available for sale financial assets	**16,697**	**263,404**	**280,101**	-	-	-
- Derivative financial instruments	**414**	**-**	**414**	17	563	580
Loans and other receivables	**42,650**	**-**	**42,650**	71,069	-	71,069
Reinsurers' share of claims outstanding	**29,651**	**160,821**	**190,472**	29,635	192,021	221,656
Insurance receivables	**45,222**	**-**	**45,222**	52,338	-	52,338
Accrued interest and income	**7,876**	**-**	**7,876**	6,319	-	6,319
Cash and cash equivalents	**126,780**	**-**	**126,780**	184,659	-	184,659
	492,559	**492,710**	**985,269**	455,914	519,751	975,665

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

The table below summarises the maturity profile of the financial liabilities 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
	£000	£000	£000	£000	£000
Insurance contract liabilities	170,662	156,857	82,648	110,996	521,163
Financial liabilities					
- Other financial liabilities	-	-	-	10,770	10,770
Insurance payables	8,034	-	-	-	8,034
Trade and other payables - excluding tax and social security costs	27,118	-	-	-	27,118
	205,814	156,857	82,648	121,766	567,085

Maturity profile of financial liabilities 2017	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000
Insurance contract liabilities	181,309	155,992	81,082	130,274	548,657
- Derivative Financial Instruments	677	-	-	1,360	2,037
- Other financial liabilities	-	-	-	10,652	10,652
Insurance payables	6,491	-	-	-	6,491
Trade and other payables - excluding tax and social security costs	17,033	-	-	-	17,033
	205,510	155,992	81,082	142,286	584,870

Fair value estimation

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

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

Fair value estimation (continued)

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 instruments.

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

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

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

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

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

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

4. Capital management and 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
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts	**50,906**	**135,936**	**-**	**186,842**	53,270	978	136	54,384
Debt and other fixed income securities	**13,027**	**91,885**	**-**	**104,912**	-	384,660	-	384,660
Derivative financial instruments	**403**	**11**	**-**	**414**	(677)	(780)	-	(1,457)
Collateral pledged	**779**	**-**	**-**	**779**	2,455	-	-	2,455
	65,115	**227,832**	**-**	**292,947**	55,048	384,858	136	440,042

	2018				2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Available-for-sale financial assets								
Debt and other fixed income securities	**18,775**	**261,326**	**-**	**280,101**	-	-	-	-
	18,775	**261,326**	**-**	**280,101**	-	-	-	-

Movement in level 3 instruments measured at fair value:

	Fair value through profit or loss	**Derivative financial instruments**	**Total**
	£000	**£000**	**£000**
Balance at 1 January 2018	**136**	**-**	**136**
Total loss recorded in statement of comprehensive income	**(136)**	**-**	**(136)**
Balance at 31 December 2018	**-**	**-**	**-**

	Fair value through profit or loss	Derivative financial instruments	Total
	£000	£000	£000
Balance at 1 January 2017	178	-	178
Total (loss)/gain recorded in statement of comprehensive	30	-	30
Sales	(72)	-	(72)
Balance at 31 December 2017	136	-	136

Sensitivities of level 3 investments

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

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

The Company had no holdings in financial assets classified as level 3 at 31 December 2018.

Information about fair value measurements using significant unobservable inputs (Level 3) at 31 December 2017:

	Fair value at 31 December 2017 £000	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial Assets held at fair value through profit or loss:					
Shares, other variable yield securities and units in unit trusts					
- Overseas Unlisted	136	N/A*	N/A*	N/A*	N/A*
Financial Liabilities:					
Derivative financial instruments	-	Mark-to-model	Gilt repo rates	The range on market gilt repo rates offered can be up to 10bps	A gilt repo rate increase will result in a lower contract value

* Due to the nature of these holdings the quantitative unobservable inputs are not developed by the entity when measuring fair value, and in accordance with IFRS 13 paragraph 93 (d) the Company has not disclosed the relevant information.

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 appointed business risk managers, who then report these and other significant risks to the GI Risk and Compliance Committee, where the risks are reviewed and challenged. Any risks which require escalation are reported to the GI Board Risk Committee. The GI Board Risk Committee comprises members from both LVGIG and Allianz.

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.

5. Net premium revenue

	2018	2017
	£000	£000
Insurance contracts		
Premiums written	**299,494**	239,685
Change in unearned premium reserve	**(33,485)**	(4,981)
Premium revenue arising from insurance contracts issued	**266,009**	234,704
Reinsurance contracts		
Premiums payable	**(61,249)**	(51,288)
Change in unearned premium reserve	**132**	(38)
Premium revenue ceded to reinsurers on insurance contracts issued	**(61,117)**	(51,326)
Net premium revenue	**204,892**	183,378
Motor	**264,624**	234,704
Property	**1,385**	-
Premium Revenue by Line of Business	**266,009**	234,704

6. Investment income

	2018	2017
	£000	£000
Available for sale financial assets		
- Interest Income	**1,003**	-
Fair value through profit or loss assets		
- Interest on loans and receivables	**881**	601
- Interest income	**9,319**	10,439
- Dividend income	**848**	1,700
	12,051	12,740

7. Net losses on investments

	2018	2017
	£000	£000
Losses on financial assets at fair value through profit or loss		
- Debt securities	**(7,744)**	(6,551)
- Equity securities	**(1,847)**	2,849
- Derivative financial instruments	**(101)**	(3,647)
	(9,692)	(7,349)

On a continuing basis, the Company had net fair value losses on financial assets at FVTPL which include net realised losses of £11,028,000 (2017: Gain £452,000) and net unrealised gains of £1,336,000 (2017: Loss £7,801,000). There have been no realised gains or losses on AFS financial assets in 2018. Changes in the fair value of AFS financial assets are reported in the AFS reserve within equity.

8. Other income

	2018	2017
	£000	£000
Interest receivable from insurance contracts	**7**	-
Other Income	**3,700**	346
	3,707	346

9. Insurance claims and loss adjustment expenses

	2018 £000	2017 £000
Gross insurance claims		
Claims paid during the year	**177,325**	149,770
Claims handling costs	**8,410**	7,743
Movement in claims liabilities	**(42,697)**	23,489
	143,038	181,002
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(45,773)**	(31,928)
Movement in reinsurers' share on claims liabilities	**32,826**	(26,881)
	(12,947)	(58,809)
Net insurance claims	**130,091**	122,193

Included within claims incurred is a decrease of £26,200,000 in respect of motor insurance business (2017: £18,900,000 decrease). This being the change, over 2018, in the costs associated with all claims incurred for incidents that occurred during and prior to 2017. The figures that have been calculated here are presented post-LPT and Quota Share and excluding explicit claims margin.

10. Finance costs

	2018 £000	2017 £000
Interest payable	**360**	362
	360	362

11. Other operating and administrative expenses

	2018 £000	2017 £000
Investment management expenses and charges	**1,125**	1,094
Acquisition expenses	**47,328**	39,105
Movement in deferred acquisition costs	**(4,345)**	(523)
Exchange loss on subordinated note	**118**	409
Auditors' remuneration	**333**	284
Impairment of insurance receivables	**353**	118
Administrative expenses	**15,406**	9,578
	60,318	50,065

Staff costs were incurred by the Liverpool Victoria Friendly Society and recharged to the Company. Included within Administrative expenses and Claims handling costs (which are disclosed within Gross Insurance Claims) are staff costs of £27,600,000 (2017: £25,000,000).

12. Discontinued operations

a) Description

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

b) Financial performance and cash flow information

Financial information relating to the discontinued operation for the years to 31 December 2018 and 2017 are presented below.

	2018 £000	2017 £000
Net earned premiums	**103,846**	104,364
Net fair value on financial assets at fair value through income	**(3,756)**	(3,063)
Investment income	**4,670**	5,311
Other income	**271**	237
Net insurance claims*	**(90,355)**	(77,897)
Expenses and finance costs	**(30,563)**	(33,168)
Loss before tax	**(15,887)**	(4,216)
Income tax credit/(expense)	**3,079**	(3,147)
Loss after tax of discontinued operation	**(12,808)**	(7,363)
Gain on sale of Commercial Broker lines business	**-**	20,800
(Loss)/Profit from discontinued operation	**(12,808)**	13,437

	2018 £000	2017 £000
Net Cash (outflow) from operating activities	**(15,887)**	(4,216)
Net Cash inflow from investing activities*	**-**	20,800
Net (decrease)/increase in cash generated by Commercial broker	**(15,887)**	16,584

*2017 includes an inflow of £20.8m from the sale of the Commercial broker lines business which was received on a net basis, with £1m being included in the continuing operations cash flow.

c) Details of the sale of the Commercial broker lines business

	2018 £000	2017 £000
Cash consideration received for sale of Commercial broker	**-**	20,800
Gain on sale before income tax	**-**	20,800
Income tax expense on gain	**-**	(3,812)
Gain on sale after income tax	**-**	16,988

13. Auditors' remuneration

	2018 £000	2017 £000
Audit of the Company	**283**	227
Audit related assurance services	**50**	57
	333	284

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

14. 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 £000	2017 £000
a) Aggregate emoluments	**2,988**	5,557

b) Emoluments of the Directors were as follows:

	Fees and Salaries	Bonus	Deferred bonus *	Other benefits	Long term incentive plan	2018 Total	2017 Total
	£000	£000	£000	£000	£000	£000	£000
Highest paid Director	**525**	**345**	**-**	**133**	**-**	**1,003**	1,719
All Directors	**1,684**	**741**	**-**	**183**	**380**	**2,988**	5,557

* Deferred bonus represents the amount of the 2018 performance bonus payable over the next three years.

Other benefits include payments in lieu of pension contributions, 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 £11,850 of contributions to the defined contribution section of the My LVGIG Savings Plan (2017: £24,040 LV= Employee Pension Scheme).

Further details of the Employee Pension Schemes are disclosed within the financial statements of LVFS.

Deferred pension at end of year	2018 £000	2017 £000
All Directors	**32**	93

15. Income tax expense

a) Current tax

	2018 £000	2017 £000
Current year tax expense		
Corporation tax	**590**	1,925
Adjustment to current tax in respect of prior years	**(4)**	-
Total current tax	**586**	1,925
Deferred tax		
Deferred tax charge	**20**	3,970
Adjustment to deferred tax in respect of prior years	**3**	2
Total deferred tax charge	**23**	3,972
Total income tax expense	**609**	5,897
Income tax expense attributable to:		
Profit from continuing operations	**3,688**	2,750
(Loss)/Profit from discontinued operations	**(3,079)**	3,147
	609	**5,897**

b) Reconciliation of tax charge

The tax assessed for the year is lower (2017:lower) than the standard rate of corporation tax in the UK 19.00% (2017:19.25%).

	2018 £000	2017 £000
Profit before tax from continuing operations	**20,189**	16,495
(Loss)/Profit before tax from discontinued operations	**(15,887)**	16,584
Profit before tax	**4,302**	33,079
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	**817**	6,367
Tax effects of:		
Expenses not deductable for tax purposes	**11**	(2)
Impact of change in UK corporation tax rate on deferred tax	**(1)**	(27)
Income not subject to corporation tax	**(217)**	(443)
Adjustment to current tax in respect of prior years	**(4)**	-
Adjustment to deferred tax in respect of prior years	**3**	2
Total income tax expense for the year	**609**	5,897

Accordingly, the profits for the year are taxed at an effective rate of 14.1% (2017: 17.8%)

16. Intangible assets

	2018 £000	2017 £000
Cost		
At 1 January	**1,000**	-
Additions	**-**	1,000
At 31 December	**1,000**	1,000
Accumulated amortisation		
At 1 January	**-**	-
Amortisation charge for the year	**50**	-
At 31 December	**50**	-
Net book value as at 31 December	**950**	1,000

17. Deferred tax asset

	2018 £000	2017 £000
At 1 January	**108**	4,080
Charge to statement of comprehensive income	**(23)**	(3,972)
Amounts recorded within other comprehensive expense	**625**	-
At 31 December	**710**	108

Analysis of deferred taxation temporary differences:

	2018 £000	2017 £000
Accelerated capital allowances	**85**	108
Available for sale financial assets	**625**	-
	710	108

The analysis of the deferred tax balance is as follows:

	2018 £000	2017 £000
Deferred tax asset expected to be recovered after more than 12 months	**693**	87
Deferred tax asset expected to be recovered within 12 months	**17**	21
Net deferred tax asset	**710**	108

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation is dependent on the availability of future taxable profits within the Company. Management forecasts currently support the future recoverability of the deferred tax asset recognised in the Statement of Financial Position as at 31 December 2018.

The calculation of deferred tax balances at the year-end also takes into account the reduction in the UK main corporation tax rate to 17%, substantively enacted on 6 September 2016 and effective from 1 April 2020.

18. Current tax liability

	2018	2017
	£000	£000
At 1 January	**(1,789)**	1,137
Amounts recorded in the statement of comprehensive income	**(586)**	(1,925)
Payments made in respect of group relief	**-**	(1)
Payments paid/(recovered) in respect of income tax	**2,313**	(1,000)
At 31 December	**(62)**	(1,789)

19. Prepayments and accrued income

	2018	2017
	£000	£000
Accrued interest	**6,418**	5,908
Prepayments	**599**	638
Accrued Income	**1,458**	411
	8,475	6,957

20. Deferred acquisition costs

	2018	2017
	£000	£000
At 1 January	**29,741**	27,980
Acquisition expenses deferred	**61,367**	59,042
Amortisation	**(61,793)**	(57,281)
At 31 December	**29,315**	29,741

21. Financial assets

	2018	2017
	£000	£000
Summary		
Fair value through profit or loss assets	**291,754**	439,044
Available for sale financial assets	**280,101**	-
Total financial assets	**571,855**	439,044
(a) Fair value through profit or loss assets		
Shares, other variable yield securities and units in unit trusts	**186,842**	54,384
Debt and other fixed income securities	**104,912**	384,660
Total financial assets at fair value through profit or loss	**291,754**	439,044
(b) Available for sale financial assets		
Debt and other fixed income securities	**280,101**	-
Total available for sale financial assets at fair value	**280,101**	-

22. Derivative financial instruments

The Company utilises the following derivative instruments for hedging the effects of changes in the FTSE 100 index on its equity and movements in the yield curve on the market value of its fixed interest portfolio. Fair values are estimated using current market index data and are included in assets/liabilities as set out in the following table:

	2018			2017		
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
	£000	**£000**	**£000**	£000	£000	£000
Forward exchange contracts	**1,865**	**11**	**-**	1,749	17	-
Equity/Index derivatives	**25,508**	**403**	**-**	26,361	-	(677)
Interest Rate Swaps	**-**	**-**	**-**	94,000	563	(1,360)
	27,373	**414**	**-**	122,110	580	(2,037)

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

As a result of the use of the above derivative instruments the Company's asset portfolio was protected from; a significant fall in value of the UK equity market throughout 2018, and interest rate swaps were used to hedge our interest rate risk until we implemented the Available for Sale classifications as part of realigning our investment strategy (see Note 4. Capital management and risk management and control; Interest rate risk).

23. Loans and other receivables

	2018	2017
	£000	£000
Repurchase agreements	**33,333**	66,667
Other receivables	**8,538**	1,947
Cash Collateral pledged	**779**	2,455
	42,650	71,069

24. Reinsurance assets

	2018	2017
	£000	£000
Reinsurers' share of provision for unearned premiums	**163**	230
Reinsurers' share of claims outstanding	**190,472**	221,656
	190,635	221,886

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

25. Insurance receivables

	2018	2017
	£000	£000
Receivables arising from insurance and reinsurance contracts		
- Due from agents, brokers and intermediaries	**35,931**	49,697
- Due from reinsurers	**9,291**	2,641
	45,222	52,338

The amounts above are stated net of an immaterial provision (2017: immaterial)

26. Cash and cash equivalents

	2018	2017
	£000	£000
Bank balances	**21,991**	20,216
Short term bank deposits	**104,789**	164,443
Cash and cash equivalents per Statement of Financial Position	**126,780**	184,659
Bank overdrafts	**(5,780)**	(2,879)
Cash and cash equivalents per statement of cash flows	**121,000**	181,780

27. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2018			2017		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**521,163**	**(190,472)**	**330,691**	548,657	(221,656)	327,001
General insurance unearned premiums	**193,520**	**(163)**	**193,357**	194,205	(230)	193,975
	714,683	**(190,635)**	**524,048**	742,862	(221,886)	520,976

b) Movement in general insurance claims liabilities

	2018			2017		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**518,895**	**(191,256)**	**327,639**	411,928	(55,453)	356,475
IBNR	**29,762**	**(30,400)**	**(638)**	89,699	(131,090)	(41,391)
Balance at 1 January	**548,657**	**(221,656)**	**327,001**	501,627	(186,543)	315,084
Movement in claims incurred in prior accident years	**(74,335)**	**40,062**	**(34,273)**	(13,054)	(9,264)	(22,318)
Claims incurred in the current accident year	**316,871**	**(74,018)**	**242,853**	289,779	(78,865)	210,914
Claims paid during the year	**(270,030)**	**65,140**	**(204,890)**	(229,695)	53,016	(176,679)
	(27,494)	**31,184**	**3,690**	47,030	(35,113)	11,917
Balance at 31 December	**521,163**	**(190,472)**	**330,691**	548,657	(221,656)	327,001
OCR	**540,835**	**(185,750)**	**355,085**	518,895	(191,256)	327,639
IBNR	**(19,672)**	**(4,722)**	**(24,394)**	29,762	(30,400)	(638)
Balance at 31 December	**521,163**	**(190,472)**	**330,691**	548,657	(221,656)	327,001

c) Movement in general insurance unearned premiums

	2018			2017		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**194,205**	**(230)**	**193,975**	179,691	(211)	179,480
Premiums written in the year	**403,135**	**(95,015)**	**308,120**	385,218	(82,981)	302,237
Premiums earned during the year	**(403,820)**	**95,082**	**(308,738)**	(370,704)	82,962	(287,742)
Balance at 31 December	**193,520**	**(163)**	**193,357**	194,205	(230)	193,975

27. 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 90% 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 and is calculated as part of the quarterly actuarial reserve review. However, the aggregated case reserves may be deemed to be over or understated against the expected ultimate settlement cost of the known claims and this is allowed for in the IBNR calculation.

Incurred But Not Reported Reserve ('IBNR')

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

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

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

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

The claim types modelled for household products are:

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

Unearned Premium Reserve ('UPR')

The UPR is that proportion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position 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.

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

28. Other financial liabilities

	2018 £000	2017 £000
Subordinated note	**10,770**	10,652
	10,770	10,652

€12,000,000 subordinated note is repayable in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%.

29. Insurance payables

	2018 £000	2017 £000
Due to brokers and intermediaries	**1**	-
Due to policyholders	**284**	224
Due to reinsurers	**7,749**	6,267
	8,034	6,491

30. Trade and other payables

	2018 £000	2017 £000
Bank overdrafts	**5,780**	2,879
Amounts owed to group undertakings	**6,497**	4,592
Accruals and deferred income	**6,787**	6,341
Other taxes and social security costs	**9,796**	11,616
Other payables	**8,054**	3,221
	36,914	28,649

31. Share capital

	2018 £000	2017 £000
Ordinary shares, allotted and fully paid		
75,000,000 ordinary shares of £1 each	**75,000**	75,000

All authorised shares have been issued.

32. Capital reserve

	2018	2017
	£000	£000
Balance at 1 January	**75,400**	150,000
Capital Contribution	**31,000**	-
Dividends paid	-	(74,600)
Balance at 31 December	**106,400**	75,400

The Company paid the following interim dividends to Highway Insurance Group

	2018	2017
	£000	£000
Dividends paid	-	74,600
Total dividends paid for the year	-	74,600

The following dividends were declared and paid in 2018:
£nil was remitted to the parent company Highway Insurance Group (0.00 pence per share). (2017: 99.47 pence per share)

The reserve was created to receive capital contributions from its ultimate parent company, LVFS, in order to maintain regulatory capital as one of the Groups subsidiaries.

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

33. Retained earnings

	2018	2017
	£000	£000
Balance at 1 January	**64,502**	37,320
Profit for the year	**3,693**	27,182
Balance at 31 December	**68,195**	64,502

34. Available for sale reserve

	2018	2017
	£000	£000
Balance at 1 January	-	-
Change in value of available for sale financial assets	**(3,677)**	-
Income tax on these items	**625**	-
Balance at 31 December	**(3,052)**	-

35. Cash generated from operating activities

	2018	2017
	£000	£000
Profit before tax from continuing operations	**20,189**	16,495
(Loss)/Profit before tax from discontinued operations	**(15,887)**	16,584
Profit before tax	**4,302**	33,079
Investment income	**(16,721)**	(18,051)
Interest income received	**(7)**	-
Gains on the sale of commercial broker renewal rights	**-**	(20,800)
Finance costs	**360**	362
Losses on financial assets recorded in the statement of comprehensive income	**13,448**	10,412
Exchange losses on financial assets recorded in the statement of comprehensive income	**118**	409
Non-cash items		
Movement in expenses deferred during the year	**426**	(1,761)
Amortisation of Intangible assets	**50**	-
Changes in working capital		
Decrease in loans and other receivables	**28,419**	3,923
Decrease/(Increase) in reinsurance assets	**31,251**	(35,132)
Decrease/(Increase) in insurance receivables	**7,116**	(8,282)
Increase in prepayments and accrued income	**(1,008)**	(194)
(Decrease)/Increase in insurance contract liabilities	**(28,179)**	61,544
Increase (Decrease) in insurance payables	**1,543**	(680)
Increase in trade and other payables	**5,364**	4,493
Cash generated from operating activities	**46,482**	29,322

36. 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 year 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
	£000	£000
Short-term employee benefits	**2,608**	4,138
Post employee benefits	**12**	24
Other long-term benefits	**380**	1,419
	3,000	5,581

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

	2018	2017
	£000	£000
Cost of repairs from LV Repair Services Limited	**11,963**	6,505
	11,963	6,505

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

	2018	2017
	£000	£000
Management charge to the Company	**36,950**	-
	36,950	-

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

	2018	2017
	£000	£000
Management charge to the Company	**18,129**	55,740
	18,129	55,740

LV General Insurance Group provides management services to the Highway Insurance Company Limited.

The following transactions have taken place between the Company and Highway Insurance Group Limited:

	2018	2017
	£000	£000
Capital contribution	**31,000**	-
Dividends Paid	**-**	(74,600)
	31,000	(74,600)

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

	2018	2017
	£000	£000
Payable by the Company to LVFS	**(6,497)**	(4,592)
	(6,497)	(4,592)

37. Ultimate parent company

The ultimate parent company and ultimate controlling party is Liverpool Victoria Friendly Society Limited, a UK incorporated Friendly Society registered under the Friendly Societies Act 1992.

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

Both the ultimate and immediate parent companies are registered at the below address.

The largest company whose financial statements this company is consolidated into is Liverpool Victoria Friendly Society Limited ('LVFS'). The smallest company whose financial statements this company is consolidated into is LVGIG. LVGIG is a 51% owned subsidiary of LV Capital plc (2017: 51%). On 28 December 2017 LV Capital plc sold a 49% stake in LVGIG to Allianz Holdings plc.

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

The Company Secretary
County Gates
Bournemouth
BH1 2NF

or for LVFS only online at www.lv.com/about-us/company-information/returns/reports-accounts