COMPANY REGISTRATION NUMBER: 03730662

HIGHWAY
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

C O N T E N T S

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors
P M Bunker
S V Castle
J B O'Roarke
M J Rogers
P W Moore
R A Warner
S R Haynes
S C A Fernandes
P A Horton
J M Laidlaw Appointed 12 September 2014

Company Secretary
R S Small

Registered office
County Gates
Bournemouth
BH1 2NF

Tel: 01202 292333

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

STRATEGIC REPORT

1. Results and dividends

The profit on ordinary activities for the year after taxation is £26,926,000 (2013: £16,693,000) as set out on page 10. The Directors have not proposed or paid any dividends in the current year (2013: £nil).

2. Principal activities

The principal activity of the Company is to carry on general insurance business through the broker distribution channel. 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.

3. Business review and developments

(a) Results and performance

The 2014 results for the Company show a profit before taxation of £33,727,000 (2013: £21,454,000). It is the fifth successive year that the Company has reported a profitable result. This, coupled with an improvement in underwriting result demonstrates that the Company's results are developing in line with its strategic objectives.

The following factors have had a material effect on the result for the year (see also (g) Key Performance Indicators below):

1. Premium written: Due to very competitive market conditions during 2014, particularly in Motor, it was hard to maintain or increase prices without adversely impacting business volumes. The Company did however start to implement price increases during the second half of 2014 in order to maintain acceptable margins. As a result of these competitive market price conditions, the Company reported a small reduction in overall premiums written, even though underlying business volumes have increased.

2. Underwriting result: The Company's underwriting profit improved during 2014. The main reason for this is that, although the current year results were adversely impacted by the margin pressures noted above, there was a significant favourable prior year reserves run off, amounting to £40.6m (2013: £10.7m). The material level of reserve run off seen during 2014 was partly due to more data clarity emerging after some initial uncertainly inherent in the implementation of a new claims system in 2013 and partly due to the recognition of some positive impact from the implementation of the Legal Aid, Sentencing and Punishment of Offender Act (LASPO) reforms described in last year's report. It is therefore unlikely that any prior year reserve run off in 2015 will be at a similar level.

3. Investment returns: 2014 was a challenging year for the financial markets, with the overall returns remaining subdued driven by continued low underlying interest rates and poor performance from equities. The Company's investment return of 2.0% is expected to be broadly in line with external market benchmarks. It has benefited from an active but conservative management of its portfolio, as well as a spread of investment risk across a range of investment holdings, sectors, ratings and maturities.

4. Expenditure: In response to the competitive market conditions the Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses during the year. Nevertheless, investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy. Even though overall expenditure has increased at a lower rate than overall policy volumes, the lower average earned premiums have led to a slightly higher expense ratio in 2014 compared to 2013.

5. Claims: During 2014 the Company continued to develop its products and enhance its pricing and underwriting processes, which have contributed to a continued improvement in the personal injury ('PI') claims frequency. Initiatives driving claims management efficiencies have contributed to the claims performance in 2014.

6. Broker Division: The Broker Division offers both personal lines (primarily Motor) and Commercial/SME products under the ABC Insurance and Highway brands. During 2014 this division wrote premiums of £604.7m (2013: £621.3m). This was less than 2013, as the target of achieving acceptable underwriting margins was prioritised over pursuing business volume growth. Nevertheless premium increases were reported in the SME lines of business.

3. Business review and developments (continued)

(a) Results and performance (continued)

Management views 2014 as a year where it has been able to demonstrate that it can deliver sustainable profits in a difficult and competitive market.

(b) Business environment

2014 was a challenging year for UK motor insurers as market rates continued to weaken and investment returns remained subdued. Despite these conditions, the Company delivered continued policy growth in its target market segments and now has over 1.4 million policies across an increasingly broad range with in the product lines.

Competitive pressures are expected to continue into 2015. However Management believes that market rates are likely to move towards more sustainable levels during the course of the 2015 trading year.

(c) Strategy

The Company is a major subsidiary of Liverpool Victoria General Insurance Group Limited (‘LVGIG’). The long term objective of LVGIG (and its subsidiaries (‘Group’)) is as follows:

“To maintain its position as a top five general insurer in its target markets and to be active in all major channels: direct, broker, affinity and white-label.
It will be focused on three core products, namely Motor, Home and SME supported by more minor lines such as Road Rescue, Travel and Pet and will utilise a range of strong brands including LV=, Highway, ABC and Britannia Rescue. The Group will operate best-practice processes and technology in order to provide superior customer service through a people-focused and empowered culture. The Group aims to deliver attractive and consistent returns to the members of Liverpool Victoria Friendly Society (‘LVFS’).”

(d) Principal risks and uncertainties

Pricing: The UK motor insurance market moves in a cyclical manner and is currently experiencing significant price competition. The main reason for this is that many insurance companies have benefitted from the favourable impacts of the LASPO legislative changes which occurred during 2013. These benefits are being realised, although it remains possible that the market has over-estimated the level of savings and therefore the price reductions that can be afforded. As such, Management believes that motor premium rates will have to increase to more sustainable levels during the course of 2015.

Economic Environment: The financial environment during the course of 2014 has been volatile and returns subdued. This looks set to remain with significant uncertainties around interest rate, credit spread and yield levels, overlaid in 2015 by the political uncertainty occasioned by the general election and the continuing travails of the Euro area. Investment income is predicted to remain relatively low (by historical standards) for the next few years.

The Company pays particular attention to credit risk and increased 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) as it continues to prepare for the future. Such change carries with it an element of operational risk; however, Management mitigates this risk through a disciplined project management approach.

Distribution/Market developments: The increased influence of the internet and of price comparison websites (commonly referred to as “aggregators”) has changed and continues to change the UK business environment. Social media are increasingly becoming material factors influencing the way the Company conducts the business, and are therefore are monitored closely by the Company. Insurance specific developments in technology (such as crash avoidance systems, telematics, etc.) are another potential driver 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)

Regulatory: A number of legal and regulatory developments affected the UK insurance market during 2014 and will continue into 2015. These include:

1. Solvency II: Management monitors all developments and takes appropriate action to ensure that the Company is well prepared for the Solvency II capital regime which will take effect from 1 January 2016. This regime requires significant changes to the solvency and capital management processes of both insurance companies and regulators and in addition the key implementation and transition rules remain unclear. As such there is some uncertainty around the long-term capital requirements of the Company and the insurance industry as a whole. As part of its usual risk management processes the Company reviews regulatory documents when published and assesses its internal products, processes and controls against the risks that the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') identifies.

2. FCA market intervention: the FCA has made its intention public to intervene more actively in the workings of the market where it feels that the right outcomes are not being achieved for the consumer. 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: There is continued uncertainty in relation to the Ogden discount rate – the rate used by insurance companies to calculate a discounted lump-sum value of the future cost of care, loss of earnings and pensions for large personal injury claims. Although a change is not expected in 2015 a reduction in the rate is a possibility at some point in the future. A statement of how the Company manages its principal types of risk is disclosed in note 5 of the financial statements.

Further details as to how the Group manages its principal types of risk is disclosed in note 5 of the financial statements.

(e) Future outlook

It is projected that the Company will steadily increase its premium income in 2015 and beyond. However, it should be noted that volume growth will not be pursued at the expense of ever lower margins. The Company therefore expects to continue to deliver underwriting profits in 2015.

(f) Significant post Statement of Financial Position events

There have been no events of significance affecting the Company since the Statement of Financial Position date.

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 high level ones are as follows:

KPI	2014	2013	Comments
Premiums written	£305m	£317.3m	As a result of competitive market conditions and material price reductions primarily in the Motor market, the Company reported a year on year reduction in the premium written by 3.9%. Underlying policy counts did however increase slightly.
Underwriting loss ratio	63.8%	72.1%	An overall loss ratio of 63.8% was a significant improvement on the prior year. The main driver of the improvement was the large prior year reserves run off amounting to £40.6m (2013: £10.7m). The favourable impact of this fully mitigated the impact of price driven margin pressures on the 2014 loss ratio.
Expense ratio *	28.8%	28.3%	Although the Company benefited from good cost management processes and economies of scale during 2014 (the absolute expense costs being down by 5%), lower average earned premiums led to a year on year increase of the expense ratio.
Combined ratio	92.6%	100.4%	An overall combined ratio of 92.6% is an improvement on 2013 with the improved loss ratio being the principal driver.
Investment return	£13.2m	£24.5m	Total investment return includes: 1. Investment income and 2. Net fair value gains/losses on financial assets 2014 was a challenging year for the investment markets, with overall returns remaining depressed in line with the underlying low interest rates and poor equity returns, The Company achieved a total investment return of £13.2m (which equates to a total return of 2.0%, 2013: 3.2%).
Net assets	£273.1m	£246.2m	Net assets have increased during 2014 to £273.1m reflecting the strong post-tax profits made by the Company in 2014.

* Expense ratio excludes 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 ultimate parent company level.

On behalf of the Board of Directors

S V Castle
Director

27 March 2015

DIRECTORS' REPORT

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

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

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 1.

2. Parent company

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

3. Employees

The Company did not directly employ any staff during 2014. Instead it utilised the staff and premises of LVFS in carrying out its activities and incurred the cost of staff through management charges.

4. Disclosure of information to auditors

Each Director at the date of this report confirms that:

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

5. 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 1.

6. Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

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

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

7. Independent Auditors and disclosure of information to auditors

Each Director at the date of this report confirms that:

- 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 himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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. They 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.

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

R S Small
Company Secretary

27 March 2015

Independent auditors' report to the members of Highway Insurance Company Limited

Report on the financial statements

Our opinion

In our opinion, Highway Insurance Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

What we have audited

Highway Insurance Company Limited's financial statements comprise:

- the Statement of Financial Position as at 31 December 2014;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 March 2015

(a) The maintenance and integrity of the Liverpool Victoria Friendly Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	2013 £000
Insurance contract premium revenue	6	**307,220**	329,573
Insurance contract premium ceded to reinsurers	6	**(6,638)**	(7,216)
Net premium revenue		**300,582**	322,357
Investment income	7	**25,448**	25,822
Net fair value losses on financial assets at fair value through income	8	**(12,231)**	(1,368)
Other income	9	**724**	741
Total income		**314,523**	347,552
Insurance claims and loss adjustment expenses	10	**(194,624)**	(236,804)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	**2,813**	4,275
Net insurance claims		**(191,811)**	(232,529)
Finance costs	11	**(389)**	(414)
Other operating and administrative expenses	12	**(88,596)**	(93,155)
Total claims and expenses		**(280,796)**	(326,098)
Profit before tax		**33,727**	21,454
Income tax expense	15	**(6,801)**	(4,761)
Profit for the year attributable to the owners		**26,926**	16,693
Total comprehensive income for the year		**26,926**	16,693

All balances relate to continuing business.

The notes on pages 14 to 48 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

		Attributable to equity holder of the Company			
		Share capital	**Retained earnings**	**Capital reserve**	**Total**
	Note	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2014		**75,000**	**21,206**	**150,000**	**246,206**
Profit for the year	33	**-**	**26,926**	**-**	**26,926**
Balance at 31 December 2014		**75,000**	**48,132**	**150,000**	**273,132**

		Attributable to equity holder of the Company			
		Share capital	Retained earnings	Capital reserve	Total
	Note	£000	£000	£000	£000
Balance at 1 January 2013		75,000	4,513	150,000	229,513
Profit for the year	33	-	16,693	-	16,693
Balance at 31 December 2013		75,000	21,206	150,000	246,206

The notes on pages 14 to 48 are an integral part of the financial statements.

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	**2014** **£000**	2013 £000
Assets			
Deferred acquisition costs	16	**24,567**	24,844
Deferred tax asset	17	**215**	266
Prepayments and accrued income	18	**9,771**	9,062
Financial assets			
- Fair value through income	19	**606,424**	610,851
- Derivative financial instruments	20	**225**	2,670
Loans and other receivables	21	**11,910**	1,187
Reinsurance assets	22	**88,773**	92,798
Insurance receivables	23	**29,481**	29,452
Cash and cash equivalents	24	**121,114**	146,638
Total assets		**892,480**	917,768
Liabilities			
Insurance contract liabilities	25	**576,929**	638,449
Provisions	26	**11**	340
Current tax liability	27	**3,100**	1,846
Financial liabilities			
- Derivative financial instruments	20	**11,863**	-
- Other	28	**9,563**	13,204
Insurance payables	29	**847**	1,039
Trade and other payables	30	**17,035**	16,684
Total liabilities		**619,348**	671,562
Equity			
Share capital	31	**75,000**	75,000
Capital reserve	32	**150,000**	150,000
Retained earnings	33	**48,132**	21,206
Total equity		**273,132**	246,206
Total liabilities and equity		**892,480**	917,768

The notes on pages 14 to 48 are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 27 March 2015.

Signed on behalf of the Board of Directors

P W Moore
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	**2014** **£000**	2013 £000
Cash and cash equivalents at 1 January	24	**142,407**	73,132
Cash flows arising from:			
Operating activities			
Cash used in operating activities	34	**(49,710)**	(6,499)
Net decrease in investments at fair value through income		**6,504**	48,493
Dividend income received	7	**2,069**	1,178
Interest income received		**22,535**	25,895
Finance cost paid	11	**(389)**	(414)
Income tax (paid)/refund received	27	**(5,496)**	622
Net cash flows (used in)/generated from operating activities		**(24,487)**	69,275
Net (decrease)/increase in cash and cash equivalents		**(24,487)**	69,275
Cash and cash equivalents at 31 December	24	**117,920**	142,407

The notes on pages 14 to 48 are an integral part of the financial statements.

1. General information

Highway Insurance Company Limited is a company limited by shares, domiciled and incorporated in the 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. Basis of presentation

These accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as endorsed by the European Union ('EU') and the International Financial Reporting Interpretations Committee ('IFRIC') and also with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

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

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts are disclosed in note 4.

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.

Insurance contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006.

3. Accounting policies

Premiums

General insurance premiums written reflect business coming into force during the year. Earned premium is written premium adjusted for unearned premium. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the statement of financial position date. Unearned premiums are calculated on a time apportionment basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance contracts

The Company cedes some of the insurance risk in its general insurance business to reinsurers. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and in accordance with the reinsurance contracts. Reinsurance premiums are recognised in the same period as the underlying contract to which they relate.

An impairment review is performed at the statement of financial position date. Impairment occurs when there is evidence that the Company will not recover outstanding amounts under the contract, such losses being recorded immediately in the statement of comprehensive income.

3. Accounting policies (continued)

Investment income
Investment income includes dividends, interest from investments at fair value and interest on loans and receivables. Dividends are included on an ex-dividend basis. 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 purchase price.

Unrealised gains and losses
Unrealised gains and losses on investments 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. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

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

- 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.

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.

3. Accounting policies (continued)

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

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of premiums.

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.

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 (DAC). In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the Statement of Comprehensive Income initially by writing off DAC and by subsequently establishing an unexpired risk provision. Any deferred acquisition cost written off as a result of this test cannot subsequently be reinstated.

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.

Financial assets at fair value through income
All investments of the Company classified as fair value are designated as fair value through income at inception. Such assets are valued at market prices, or prices consistent with market ratings should no price be available. 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.

Collective investment schemes
Collective investment schemes are included within financial assets at fair value though income and their accounting treatment is consistent with that of financial assets at fair value through income.

3. Accounting policies (continued)

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.

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.

Loans and other receivables
Loans and other receivables are recognised when due and comprise amounts due from Group undertakings and other receivables. Loans and other receivables are initially recognised at fair value and then subsequently held at amortised cost.

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

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 earliest possible 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.

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.

3. Accounting policies (continued)

Impairment of assets
The Company assesses at each Statement of Financial Position whether there is objective evidence that a financial asset or group of financial assets not held at fair value through income is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Company about the following events:

(i) significant financial difficulty of the issuer or debtor;

(ii) a breach of contract, such as a default or delinquency in payments;

(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(iv) the disappearance of an active market for that financial asset; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

- adverse changes in the payment status of issuers or debtors in the Group; or

- national or local economic conditions that correlate with defaults on the assets in the Group.

The Company first assesses whether objective evidence of impairment exists for individually significant financial assets and if no such individual impairment exists it collectively considers impairments of groups of assets with similar credit risks.

If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income for the period.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income for the period.

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

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

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

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

3. Accounting policies (continued)

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.

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 a best estimate of the expected outcome.

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. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the statement of comprehensive income in future years.

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

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

CHANGES IN ACCOUNTING POLICIES

(i) New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2014 and are relevant to the Company:

IFRIC 21, ‘Levies’ Interpretation, sets out the accounting for an obligation to pay a levy that is within the scope of IAS 37 ’Provisions’. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. Provision should not be recognised for levies associated with future periods as an expectation to continue operating in a future period, or preparation of financial statements on a going concern basis does not constitute an obligating event. The Company recognises a liability to pay a levy when the obligating event of sales of insurance premiums occurs. No provision for levies associated with future periods is made and therefore this interpretation has no impact on the financial statements.

3. Accounting policies (continued)

Amendments to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies the criteria for offsetting financial assets and financial liabilities on the statement of financial position. Financial assets and liabilities may only be offset where the right is not contingent on a future event and is legally enforceable for all counterparties in all of the following circumstances: the normal course of business, default and insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment has been considered and there is no impact on the financial statements.

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. See Note RiskMgt for the additional disclosures included.

Other than as set out above, no new or amended accounting standards and interpretations were adopted for the 2014 financial year.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, 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 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company has yet to assess IFRS 9's full impact.

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

4. Significant accounting judgements, estimates and assumptions

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

Fair value of financial assets
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, the application of suitable indices to earlier valuations and option pricing models. This valuation will also take into account the marketability of the assets being valued.

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

Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. 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 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. While Management believes that the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgment.

The estimation of these claims is based on historical experience projected forward. Where possible, the Company adopts multiple techniques 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. The Company's 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.

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

Estimation of the ultimate cost of bodily injury claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the bodily injuries estimation process are inconsistent court resolutions and jurisprudence that have broadened the intent and scope of coverage of the protection offered in the insurance contracts issued by the Company. The current case law, can be characterised as still evolving; it is unlikely that any firm direction will emerge in the courts' compensation methods in the near future. Due to this uncertainty, it is not possible to determine the future development of bodily injury claims with the same degree of reliability as with other types of claims. A recent legislative development is the prevalence of Periodic Payment Order ('PPO') settlements. These settlements have an annuity-type structure, i.e. they are typically paid annually over the claimant's life. Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request such a settlement. Market data analysis suggests that circa 35% of claims costing in excess of £1m are now settling on a PPO basis and therefore these claims are representing a greater proportion of the liabilities year-on-year. As it is unclear whether a large claim will settle on a PPO basis or on the traditional lump sum basis, there is further uncertainty in the bodily injury projections. A further complexity of PPO claims is that due to the annuity-type structure of the claim payments, the estimation of ultimate claims cost now involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities.

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.

Provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

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

Claims provisions are subject to close scrutiny, both within the Company and across the wider LVFS Group. The Group has an Audit Committee the membership of which is drawn wholly from non-executive members of the board of LVFS, with the purpose of reviewing reserves, challenging the assumptions made by Management and recommending the level of reserves held. This committee operates as a forum for the discussion and challenge of the actuarial best estimate and booked claims provisions. External actuaries are also engaged on an annual basis to calculate an independent best estimate of the ultimate cost of claims against which the Company's best estimate is assessed.

Other
The judgments, estimations and assumptions around financial assets and claims judgments are discussed in Note 5.

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

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

Consistent with other insurers in the non-life insurance industry the PRA imposes two separate capital requirements on the Company: the Minimum Capital Requirement ('MCR') as defined in the PRA regulations and reported publicly in the Company's annual PRA return; and Individual Capital Guidance ('ICG'), which is entity specific and is derived using a more risk-related approach as set out in the PRA regulations. The ICG is calculated and updated by the PRA following its reviews on a regular basis of the Company's own Individual Capital Assessment ('ICA').

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

As at 31 December 2014, the Company disclosed regulatory capital of £281,963,000 (2013: £255,767,000) being the solo adjusted pillar 1 capital as stated in its 2014 PRA return.

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

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 ICA capital requirements.

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

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

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Company's claims reserves. The risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. For general insurance contracts this is primarily represented by exposure to risks which may lead to significant claims in terms of frequency or value. These would primarily include large personal injury claims, but would also include exposure to significant weather events impacting motor business. 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.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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 with the first layer of reinsurance between £5.0m and £10.0m, of which 68% is placed. (2013: £5.0m per claim; £5.0m-£10.0m layer 80% placed).

The Company has historic Quota Share and Excess of Loss reinsurance contracts which reduce the Company's exposure to large claims.

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

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

	2014			2013		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**340,757**	**(79,237)**	**261,520**	394,468	(83,562)	310,906
Commercial	**85,419**	**(9,317)**	**76,102**	91,016	(9,065)	81,951
Other	**-**	**-**	**-**	16	-	16
	426,176	**(88,554)**	**337,622**	485,500	(92,627)	392,873

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 development data. How much the past claim development will reflect future claims development 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 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 reserve 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. Where appropriate these have been allowed for explicitly. An additional provision is also held within the claims provision to cover the uncertainty around further fluctuations in claim development with a given degree of confidence.

The claims provision includes a specific allowance for claims identified as having the potential to settle on a PPO basis. This allowance is based on the mean cost of claims derived from a range of scenarios based on the PPO settlement rate for these claims. If all of these claims settled as PPOs, the reserves would deteriorate by an estimated £5.0m from the position shown above.

The claims provision is also sensitive to the number and cost of large motor claims (defined as greater than £1.0m), which have been incurred but not reported and reserved. We would typically expect a number of large claims from expired risks to be identified in the future, either from being newly reported or from existing claims increasing in magnitude above the £1.0m threshold. The claims provision allows for £6.7m of late reported/reserved large claims above £1.0m gross of reinsurance. Therefore, if for example eight new claims were reported, each being £5.0m above the £1.0m threshold, this would lead to a £5.2m deterioration in the reserves, whereas six new claims of this type would lead to a £4.8m improvement.

5. 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	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Initial estimate of gross provision	185.3	184.5	186.7	208.4	231.0	247.8	286.4	282.4	241.0	221.3	
One year later	191.3	180.0	196.8	243.6	226.4	274.7	279.6	272.9	222.1		
Two years later	179.3	179.7	198.5	220.0	232.4	283.0	274.6	266.6			
Three years later	171.6	179.5	200.7	212.0	234.5	280.6	272.1				
Four years later	166.7	173.9	202.8	213.6	245.5	275.6					
Five years later	164.2	174.4	207.7	209.4	244.8						
Six years later	162.5	174.5	208.7	205.2							
Seven years later	161.6	175.3	209.3								
Eight years later	164.9	176.9									
Nine years later	161.4										
Current estimate of cumulative claims	161.4	176.9	209.3	205.2	244.8	275.6	272.1	266.6	222.1	221.3	2,255.3
Cumulative payments to date	(159.3)	(171.8)	(186.1)	(202.7)	(238.5)	(241.5)	(244.7)	(191.7)	(143.6)	(88.8)	(1,868.7)
Liability recognised for 2005 to 2014 accident years	2.1	5.1	23.2	2.5	6.3	34.1	27.4	74.9	78.5	132.5	386.6
Liability recognised in respect of prior accident years											33.4
Claims handling provision											6.2
Provision as at 31 December 2014											**426.2**

Analysis of claims development – net of reinsurance

Accident year	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Initial estimate of net provision	148.0	147.0	136.7	179.3	211.4	243.8	283.4	268.1	232.6	219.0	
One year later	141.4	129.3	151.5	191.2	221.1	260.1	277.4	259.7	211.1		
Two years later	126.1	143.0	151.5	187.5	219.0	269.6	272.7	255.2			
Three years later	129.7	141.6	158.1	181.8	220.0	263.7	270.8				
Four years later	128.0	140.4	147.5	183.8	229.6	259.4					
Five years later	128.8	138.9	147.7	178.4	224.9						
Six years later	126.0	139.0	146.6	178.0							
Seven years later	126.7	139.8	146.1								
Eight years later	125.9	138.6									
Nine years later	125.7										
Current estimate of cumulative claims	125.7	138.6	146.1	178.0	224.9	259.4	270.8	255.2	211.1	219.0	2,028.8
Cumulative payments to date	(125.4)	(136.1)	(145.1)	(175.8)	(220.3)	(242.0)	(244.7)	(191.6)	(142.5)	(88.3)	(1,711.8)
Liability recognised for 2005 to 2014 accident years	0.3	2.5	1.0	2.2	4.6	17.4	26.1	63.6	68.6	130.7	317.0
Liability recognised in respect of prior accident years											14.4
Claims handling provision											6.2
Provision as at 31 December 2014											**337.6**

5. 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 Investment and Asset & Liability Committees 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. The level of investment holdings is reviewed quarterly by the Board's Investment Committee. Tactical asset allocation meetings are held monthly or more regularly if required, and strategic asset allocation meetings quarterly, to discuss 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 monitors interest rate risk by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets to changes in current interest rates. The mean duration of the assets is determined by means of projecting expected cash flows from the assets held. The liabilities are undiscounted and so unaffected in current value by changes in interest rates.

The Company manages this risk through an active use of gilt yield hedges, in the form of contracts for differences.

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.

Equity risk
The Company's objective is 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, it has 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.

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

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

As at 31 December 2014	USD £000	Euro £000	Total £000
Financial assets at fair value through income			
Shares, other variable yield securities and units in unit trusts	**420**	**-**	**420**
Shares, other variable yield securities and units in unit trusts - impairment	**420**	**-**	**420**
Debt and other fixed income securities	**-**	**975**	**975**
Derivative financial instruments	**(1,150)**	**-**	**(1,150)**
Reinsurers' share of insurance contract liabilities	**-**	**10,799**	**10,799**
Other assets			
Cash and cash equivalents	**303**	**16,323**	**16,626**
Insurance contracts	**-**	**(18,381)**	**(18,381)**
Financial liabilities			
Other financial liabilities	**-**	**(9,313)**	**(9,313)**
Total exposure	**(7)**	**403**	**396**

As at 31 December 2013	USD £000	Euro £000	Restated Total £000
Financial assets at fair value through income			
Shares, other variable yield securities and units in unit trusts	614	-	614
Shares, other variable yield securities and units in unit trusts - impairment	614	-	614
Debt and other fixed income securities	-	1,332	1,332
Derivative financial instruments	(1,419)	-	(1,419)
Reinsurers' share of insurance contract liabilities		9,882	9,882
Other assets			
Cash and cash equivalents	198	19,351	19,549
Insurance contracts	-	(20,373)	(20,373)
Financial liabilities			
Other financial liabilities	-	(9,984)	(9,984)
Total exposure	7	208	215

The sensitivity of investment assets to a 10% increase/decrease in Euro and US Dollar exchange rates net of derivatives is £700 (2013: £700) and £40,300 (2013: £20,800) respectively. In determining the percentage rates to use in this sensitivity analysis the movements in the actual market rates of Euro and US Dollars during 2014 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 £41,000 (2013: £21,500).

5. 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 indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities. The sensitivities in the table can be impacted by the use of derivative financial instruments, which are detailed in Note 20.

	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
	2014	**2014**	2013	2013
	£000	**£000**	£000	£000
Interest rate risk				
+ 50 basis points shift in yield curve	**(87)**	**(68)**	(292)	(224)
- 50 basis points shift in yield curve	**88**	**69**	292	224
Credit spread risk				
100 basis points widening in all credit spreads	**(10,960)**	**(8,604)**	(12,422)	(9,534)
100 basis points tightening in all credit spreads	**11,456**	**8,993**	12,969	9,953
Equity risk (including derivatives)				
20% increase in equity markets	**1,294**	**1,016**	7,266	5,577
20% decrease in equity markets	**(3,053)**	**(2,397)**	(7,266)	(5,577)

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

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

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

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 2014 was £29.3m (2013: £29.3m), 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 Asset & Liability and Intermediary Collection Committees and provides against older debts.

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

	AAA	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Credit risk exposure 2014	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Debt and other fixed income securities	**174,638**	**114,645**	**120,676**	**115,841**	**812**	**-**	**526,612**
Short term bank deposits	**-**	**18,197**	**48,495**	**42,578**	**-**	**6,000**	**115,270**
Insurance receivables	**-**	**-**	**135**	**-**	**-**	**29,346**	**29,481**
Reinsurance assets		**41,161**	**44,047**			**3,565**	**88,773**
Total exposure	**174,638**	**174,003**	**213,353**	**158,419**	**812**	**38,911**	**760,136**

	AAA	AA	A	BBB	Below BBB	Not rated	Total
Credit risk exposure 2013	£000	£000	£000	£000	£000	£000	£000
Debt and other fixed income securities	160,969	109,814	156,041	120,880	263	-	547,967
Short term bank deposits	-	16,998	77,725	45,315	-	-	140,038
Insurance receivables	-	-	135	-	-	29,317	29,452
Reinsurance assets		45,500	38,774			8,524	92,798
Total exposure	160,969	172,312	272,675	166,195	263	37,841	810,255

5. 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 2014	**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	**225**	**-**	**225**	**-**	**225**	**-**
Total	**225**	**-**	**225**	**-**	**225**	**-**

	Amounts off set			**Related amounts not off set**		
	Gross liabilities	**Gross assets offset**	**Net amounts presented**	**Financial Instruments**	**Cash Collateral pledged**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Derivative financial liabilities	**11,853**	**-**	**11,853**	**-**	**11,380**	**473**
Bank overdrafts	**5,315**	**2,121**	**3,194**	**-**	**-**	**3,194**
Total	**17,168**	**2,121**	**15,047**	**-**	**11,380**	**3,667**

As at 31 December 2013	Amounts off set			Related amounts not off set		
	Gross assets	Gross liabilities offset	Net amounts presented	Financial Instruments	Cash Collateral pledged	Net amount
	£000	£000	£000	£000	£000	£000
Financial assets						
Derivative financial assets	2,670	-	2,670	-	2,670	-
Total	2,670	-	2,670	-	2,670	-

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

As at 31 December 2013	Amounts off set			Related amounts not off set		
	Gross liabilities	Gross assets offset	Net amounts presented	Financial Instruments	Cash Collateral pledged	Net amount
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Bank overdrafts	5,646	1,415	4,231	-	-	4,231
Total	5,646	1,415	4,231	-	-	4,231

As at 31 December 2014, the fair value of collateral held was £0.3m (2013: £3.2m), in accordance with IFRS 7 the amount reported in the table above is limited to the amount of the derivative asset reported on the Statement of Financial Position.

No collateral received from the counterparty has been sold or repledged (2013: nil).

Collateral posted to Highway Insurance Company 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 Group.

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 2014 £0.2m (2013: £0.1m) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The tables below provides information regarding the maximum credit risk exposure to financial assets, together with the extent to which they are due, overdue and impaired. The table also shows the age analysis of the Company’s past due and/or impaired assets.

Age analysis of assets past due/impaired 2014	**<31 days**	**31 to 60 days**	**61 to 90 days**	**>90 days**	**Total past due but not impaired**	**Past due and impaired**	**Neither past due nor impaired**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance receivables	**2,268**	**691**	**251**	**230**	**3,440**	**245**	**25,796**	**29,481**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**11,910**	**11,910**

Age analysis of assets past due/impaired 2013	<31 days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Neither past due nor impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	3,472	606	119	157	4,354	149	24,949	29,452
Loans and other receivables	-	-	-	-	-	-	1,187	1,187

5. 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 Group 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:

	2014			2013		
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 income	**481,586**	**124,838**	**606,424**	93,097	517,754	610,851
- Derivative financial instruments	**225**	**-**	**225**	2,670	-	2,670
Loans and other receivables	**11,910**	**-**	**11,910**	1,187	-	1,187
Reinsurers' share of claims outstanding	**30,658**	**57,896**	**88,554**	16,429	76,198	92,627
Insurance receivables	**29,481**	**-**	**29,481**	29,452	-	29,452
Accrued interest	**9,294**	**-**	**9,294**	8,450	-	8,450
Cash and cash equivalents	**121,114**	**-**	**121,114**	146,638	-	146,638
	684,268	**182,734**	**867,002**	297,923	593,952	891,875

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

Maturity profile of financial liabilities 2014	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities	**161,277**	**145,625**	**47,753**	**71,521**	**426,176**
Provisions	**11**	**-**	**-**	**-**	**11**
Financial liabilities					
- Derivative Financial Instruments	**11,863**	**-**	**-**	**-**	**11,863**
- Other financial liabilities	**250**	**-**	**-**	**9,313**	**9,563**
Insurance payables	**847**	**-**	**-**	**-**	**847**
Trade and other payables - excluding tax and social security costs	**12,718**	**-**	**-**	**-**	**12,718**
	186,966	**145,625**	**47,753**	**80,834**	**461,178**

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

Maturity profile of financial liabilities 2013	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	177,207	143,223	72,825	92,245	485,500
Provisions	340	-	-	-	340
Financial liabilities					
- Other financial liabilities	3,220	-	-	9,984	13,204
Insurance payables	1,039	-	-	-	1,039
Trade and other payables - excluding tax and social security costs	12,112	-	-	-	12,112
	193,918	143,223	72,825	102,229	512,195

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 2014.

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

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

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

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

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

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

Fair value estimation (continued)
There were no changes to the valuation techniques during the year.

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

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

The Company outsources the valuation of the derivatives and other investment holdings to third parties who are independent and qualified valuers. As at 31 December 2014, the fair values of the Derivatives and other investment holdings have been determined by SS+C GlobeOp Inc. and individual holding private equity General Partners.

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.

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

	2014				2013			
	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 income								
Shares, other variable yield securities and units in unit trusts	**9,883**	**69,509**	**420**	**79,812**	28,609	33,661	614	62,884
Debt and other fixed income securities	**64,609**	**462,003**	**-**	**526,612**	59,715	488,252	-	547,967
Derivative financial instruments	**-**	**215**	**(11,853)**	**(11,638)**	-	29	2,641	2,670
Collateral received	**(250)**	**-**	**-**	**(250)**	(3,220)	-	-	(3,220)
Subordinated note	**-**	**(9,313)**	**-**	**(9,313)**	-	(9,984)	-	(9,984)
	74,242	**522,414**	**(11,433)**	**585,223**	85,104	511,958	3,255	600,317

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

Movement in level 3 instruments measured at fair value:

	Fair value through income	Derivative financial instruments	Total
	£000	£000	£000
Balance at 1 January 2014	614	2,641	3,255
Total gain/(loss) recorded in statement of comprehensive income	19	(15,707)	(15,688)
Movement in write off provision	195	-	195
Purchases	-	1,213	1,213
Sales	(408)	-	(408)
Balance at 31 December 2014	420	(11,853)	(11,433)

	Fair value through income	Derivative financial instruments	Total
	£000	£000	£000
Balance at 1 January 2013	872	363	1,235
Total gain recorded in statement of comprehensive income	147	2278	2,425
Movement in write off provision	256	-	256
Sales	(661)	-	(661)
Balance at 31 December 2013	614	2,641	3,255

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

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Fair Value at 31 December 2014 £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 income					
Shares, other variable yield securities and units in unit trusts					
- Overseas unlisted	**420**	N/A*	N/A*	N/A*	N/A*
Financial liabilities					
Derivative financial instruments					
Gilt yield hedge	**11,853**	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

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

Description	Fair Value at 31 December 2013 £000	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets					
Derivative financial instruments					
Gilt yield hedge	2,641	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
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
- Overseas unlisted	614	N/A*	N/A*	N/A*	N/A*

* 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.

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 group's capabilities.

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

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

The Company has not identified any significant group risks.

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

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

6. Net premium revenue

	2014 £000	2013 £000
Insurance contracts		
Premiums written	**305,024**	317,323
Change in unearned premium reserve	**2,196**	12,250
Premium revenue arising from insurance contracts issued	**307,220**	329,573
Reinsurance contracts		
Premiums payable	**(6,686)**	(7,280)
Change in unearned premium reserve	**48**	64
Premium revenue ceded to reinsurers on insurance contracts issued	**(6,638)**	(7,216)
Net premium revenue	**300,582**	322,357
Motor	**206,058**	247,224
Commercial	**94,261**	71,590
Other	**263**	3,543
	300,582	322,357

7. Investment income

	2014 £000	2013 £000
Income from investments and cash and cash equivalents		
- Interest on loans and receivables	**113**	212
- Interest income	**23,266**	24,432
- Dividend income	**2,069**	1,178
	25,448	25,822

8. Net fair value losses on financial assets at fair value through income

	2014 £000	2013 £000
(Losses)/gains on financial assets at fair value through income		
- Debt securities	**(746)**	(12,466)
- Equity securities	**2,996**	8,564
- Derivative financial instruments	**(14,481)**	2,534
	(12,231)	(1,368)

Net fair value (losses)/gains on financial assets at fair value through income include net realised gains of £2,271,000 (2013: £2,730,000) and net unrealised losses of £14,502,000 (2013: £4,098,000). The losses on derivative financial instruments are in respect of changes in forward gilt yields in the period (see note 20). These losses are partly offset by net gains in the underlying assets being hedged. The gains in debt securities above also reflect the convergence to par value in the period of assets purchased above par value.

9. Other income

	2014 £000	2013 £000
Commission income	**724**	741
	724	741

10. Insurance claims and loss adjustment expenses

	2014 £000	2013 £000
Gross insurance claims		
Claims paid during the year	**242,829**	241,659
Claims management costs	**11,118**	10,522
Movement in claims liabilities	**(59,323)**	(15,377)
	194,624	236,804
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(6,885)**	(7,077)
Movement in reinsurers' share on claims liabilities	**4,072**	2,802
	(2,813)	(4,275)
Net insurance claims	**191,811**	232,529

Included within claims incurred is a decrease of £41m in respect of motor insurance business (2013: £10.2m decrease), being the difference between the provision for claims outstanding at the beginning of the year less payments made in respect of claims incurred in prior years and the claims outstanding at the end of the year in respect of those claims.

11. Finance costs

	2014 £000	2013 £000
Interest payable	**389**	414
	389	414

12. Other operating and administrative expenses

	2014 £000	2013 £000
Investment management expenses and charges	**1,258**	1,237
Acquisition expenses	**49,665**	52,285
Movement in deferred acquisition costs	**277**	2,019
Auditors' remuneration	**175**	163
Impairment of insurance receivables	**311**	149
Administrative expenses	**36,910**	37,302
	88,596	93,155

13. Auditors' remuneration

	2014 £000	2013 £000
Audit of the Company	**150**	140
Audit related assurance services	**25**	23
	175	163

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 or LV Insurance Management Limited.

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:

	2014	2013
	£000	£000
a) Aggregate emoluments	**6,268**	8,179

b) Emoluments of the Directors were as follows:

	Fees and Salaries	**Bonus**	**Deferred bonus ***	**Other benefits**	**Long term incentive plan**	**Compen-sation for loss of office**	**2014 Total**	2013 Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Highest paid Director	**528**	**466**	**170**	**131**	**371**	**-**	**1,666**	2,364
All Directors	**2,849**	**2,047**	**223**	**586**	**563**	**-**	**6,268**	8,179

* Deferred bonus represents the amount of the 2014 performance bonus payable over the next three years.

Other benefits include payments in lieu of pension contributions, life assurance, car allowances, medical, relocation and other benefits in kind or their equivalent monetary value.

LVFS has made no contributions to personal pension arrangements during 2014 or 2013.

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 new employees on 31 December 2009 and closed to future accrual on 30 June 2013 at which point existing members were eligible to join the defined contribution section.

LVFS made contributions to the defined benefit section of an average of 18.3% of pensionable salaries for the period to 30 June 2013 subject to annual allowance limits, in respect of all permanent staff, including directors. This included contributions on behalf of directors of £56,300.

In 2014 there were £87,474 of contributions to the defined contribution section (2013: £128,188).

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

	2014	2013
Accrued pension at end of period	**£000**	£000
All Directors	**231**	223

15. Income tax expense

a) Current year tax expense

	2014 £000	2013 £000
Current year tax expense		
Corporation tax	**6,754**	4,646
Adjustment to current tax in respect of prior years	**(4)**	12
Total current tax	**6,750**	4,658
Deferred tax		
Deferred tax credit	**51**	103
Total deferred tax	**51**	103
Total income tax expense	**6,801**	4,761

b) Reconciliation of tax expense

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (21.5%). The differences are explained below:

	2014 £000	2013 £000
Profit before tax	**33,727**	21,454
Profit multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	**7,251**	4,988
Effects of:		
Impact of change in UK corporation tax rate on deferred tax	**-**	35
Adjustment to current tax in respect of prior years	**(4)**	12
Income not subject to corporation tax	**(446)**	(274)
Total income tax expense for the year	**6,801**	4,761

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the profits for this accounting period are taxed at an effective rate of 21.5%.

16. Deferred acquisition costs

	2014 £000	2013 £000
At 1 January	**24,844**	26,863
Acquisition expenses deferred	**49,665**	52,285
Amortisation	**(49,942)**	(54,304)
At 31 December	**24,567**	24,844

17. Deferred tax asset

	2014	2013
	£000	£000
At 1 January	**266**	369
Current year charge	**(51)**	(103)
At 31 December	**215**	266

Analysis of deferred taxation temporary differences:

	2014	2013
	£000	£000
Accelerated capital allowances	**215**	266
	215	266

The analysis of the deferred tax balance is as follows:

	2014	2013
	£000	£000
Deferred tax asset expected to be recovered after more than 12 months	**176**	215
Deferred tax asset expected to be recovered within 12 months	**39**	51
Net deferred tax asset	**215**	266

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation is dependant 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 balance sheet as at 31st December 2014.

The calculation of deferred tax balances at the year end also takes into account the reduction in the UK main corporation tax rate to 21%, effective from 1 April 2014, and a further reduction to 20% substantively enacted on 2 July 2013, that will be effective from 1 April 2015.

18. Prepayments and accrued income

	2014	2013
	£000	£000
Accrued interest	**9,294**	8,450
Prepayments	**477**	612
	9,771	9,062

Accrued interest includes £9,141,000 (2013: £8,300,000) of interest relating to fixed income securities.

19. Financial assets

	2014	2013
	£000	£000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	**79,812**	62,884
Debt and other fixed income securities	**526,612**	547,967
	606,424	610,851

20. 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:

	2014			2013		
	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	**32,000**	**225**	**-**	1,448	29	-
Contracts for differences (gilt yield hedge)	**529,000**	**-**	**(11,853)**	494,450	2,641	-
Futures (FTSE 100)	**-**	**-**	**(10)**	-	-	-
	561,000	**225**	**(11,863)**	495,898	2,670	-

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, a significant proportion of the Company's asset portfolio was hedged against gilt yield movements until 30th June 2015. The fair value liability arises from changes in forward gilt yields since the inception of the hedge and is partly offset by an increase in the value of the underlying assets as at 31st December 2014.

21. Loans and other receivables

	2014	2013
	£000	£000
Other receivables	**530**	1,187
Cash Collateral pledged	**11,380**	-
	11,910	1,187

22. Reinsurance assets

	2014	2013
	£000	£000
Reinsurers' share of provision for unearned premiums	**219**	171
Reinsurers' share of claims outstanding	**88,554**	92,627
	88,773	92,798

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

23. Insurance receivables

	2014	2013
	£000	£000
Receivables arising from insurance and reinsurance contracts		
- Due from agents, brokers and intermediaries	**29,346**	29,317
- Due from reinsurers	**135**	135
	29,481	29,452

As at 31 December 2014 overdue insurance receivables arising from insurance contracts were provided at £311,000 (2013: £149,000).

24. Cash and cash equivalents

	2014	2013
	£000	£000
Bank balances	**5,844**	6,600
Short term bank deposits	**115,270**	140,038
Cash and cash equivalents per statement of financial position	**121,114**	146,638
Bank overdrafts	**(3,194)**	(4,231)
Cash and cash equivalents per statement of cash flows	**117,920**	142,407

25. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2014			2013		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**426,176**	**(88,554)**	**337,622**	485,500	(92,627)	392,873
General insurance unearned premiums	**150,753**	**(219)**	**150,534**	152,949	(171)	152,778
	576,929	**(88,773)**	**488,156**	638,449	(92,798)	545,651

b) Movement in general insurance claims liabilities

	2014			2013		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**442,607**	**(41,907)**	**400,700**	477,060	(47,622)	429,438
IBNR	**42,893**	**(50,720)**	**(7,827)**	23,817	(47,807)	(23,990)
Balance at 1 January	**485,500**	**(92,627)**	**392,873**	500,877	(95,429)	405,448
Movement in claims incurred in prior accident years	**(39,421)**	**(542)**	**(39,963)**	(14,621)	4,035	(10,586)
Claims incurred in the current accident year	**222,926**	**(2,270)**	**220,656**	240,903	(8,310)	232,593
Claims paid during the year	**(242,829)**	**6,885**	**(235,944)**	(241,659)	7,077	(234,582)
	(59,324)	**4,073**	**(55,251)**	(15,377)	2,802	(12,575)
Balance at 31 December	**426,176**	**(88,554)**	**337,622**	485,500	(92,627)	392,873
OCR	**400,636**	**(38,771)**	**361,865**	442,607	(41,907)	400,700
IBNR	**25,540**	**(49,783)**	**(24,243)**	42,893	(50,720)	(7,827)
Balance at 31 December	**426,176**	**(88,554)**	**337,622**	485,500	(92,627)	392,873

c) Movement in general insurance unearned premiums

	2014			2013		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**152,949**	**(171)**	**152,778**	165,199	(107)	165,092
Premiums written in the year	**305,024**	**(6,686)**	**298,338**	317,323	(7,280)	310,043
Premiums earned during the year	**(307,220)**	**6,638**	**(300,582)**	(329,573)	7,216	(322,357)
Balance at 31 December	**150,753**	**(219)**	**150,534**	152,949	(171)	152,778

25. 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

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.

26. Provisions

	2014	2013
	£000	£000
At 1 January	**340**	-
Additions	**-**	340
Releases	**(329)**	-
Balance at 31 December	**11**	340

2014 releases relate to an indirect taxation provision.

27. Current tax liability

	2014	2013
	£000	£000
At 1 January	**(1,846)**	3,434
Amounts recorded in the statement of comprehensive income	**(6,750)**	(4,658)
Income tax paid/ (refund received)	**5,496**	(622)
At 31 December	**(3,100)**	(1,846)

28. Other financial liabilities

	2014	2013
	£000	£000
Cash Collateral received	**250**	3,220
Subordinated note	**9,313**	9,984
	9,563	13,204

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

29. Insurance payables

	2014	2013
	£000	£000
Due to reinsurers	**847**	1,039
	847	1,039

30. Trade and other payables

	2014	2013
	£000	£000
Bank overdrafts	**3,194**	4,231
Amounts owed to group undertakings	**3,567**	2,107
Accruals and deferred income	**5,611**	5,132
Other taxes and social security costs	**4,317**	4,572
Trade payables	**133**	332
Other payables	**213**	310
	17,035	16,684

31. Share capital

	2014	2013
	£000	£000
Ordinary shares, allotted and fully paid		
75,000,000 (2013: 75,000,000) ordinary shares of £1 each	**75,000**	75,000

32. Capital reserve

	2014 £000	2013 £000
Balance at 1 January	**150,000**	150,000
Balance at 31 December	**150,000**	150,000

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

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

33. Retained earnings

	2014 £000	2013 £000
Balance at 1 January	**21,206**	4,513
Profit for the year	**26,926**	16,693
Balance at 31 December	**48,132**	21,206

34. Cash used in operating activities

	2014 £000	2013 £000
Profit before tax	**33,727**	21,454
Investment income	**(25,448)**	(25,822)
Finance costs	**389**	414
Losses on financial assets recorded in the statement of comprehensive income	**12,231**	1,368
Exchange (gains)/ losses on financial assets recorded in the statement of comprehensive income	**(671)**	251
Non-cash items		
Expenses deferred during the year	**277**	2,019
Changes in working capital		
(Increase)/decrease in loans and other receivables	**(10,723)**	14,478
Decrease in reinsurance assets	**4,025**	2,738
(Increase)/decrease in insurance receivables	**(29)**	1,440
Decrease/(increase) in prepayments and accrued income	**135**	(181)
Decrease in insurance contract liabilities	**(61,520)**	(27,627)
(Decrease)/increase in provisions	**(329)**	340
(Decrease)/increase in collateral received	**(2,970)**	3,220
(Decrease)/increase in insurance payables	**(192)**	255
Increase/(decrease) in trade and other payables	**1,388**	(846)
Cash used in operating activities	**(49,710)**	(6,499)

35. Related party transactions

The Company enters into transactions with key management personnel in the normal course of business. All transactions are carried out on an arm's length basis. 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:

	2014	2013
	£000	£000
Short-term employee benefits	**5,705**	4,953
Post employee benefits	**87**	185
Other long-term benefits	**563**	2,716
Termination benefits	**-**	510
	6,355	8,364

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

	2014	2013
	£000	£000
Management charge to the Company	**50,504**	51,315
	50,504	51,315

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

	2014	2013
	£000	£000
Payable by the Company to LVFS	**(3,567)**	(2,107)
	(3,567)	(2,107)

36. Ultimate parent company

The ultimate parent company and the 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 Highway Insurance Group Limited, 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 accounts this company is consolidated into is Liverpool Victoria Friendly Society Limited.

The smallest company whose accounts this company is consolidated into is Liverpool Victoria General Insurance Group Limited.

The consolidated accounts of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from:
The Company Secretary
County Gates
Bournemouth
BH1 2NF
or at www.lv.com/about-us/company-information/returns/reports-accounts