COMPANY REGISTRATION NUMBER: 03232514

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

S C A Fernandes	
P W Moore	
R Rowney	
M P Crane	Appointed 01 January 2016
S Treloar	Appointed 05 May 2016
K O'Keeffe	Appointed 01 October 2016
D Neave	Appointed 01 October 2016
C Burton	Appointed 01 October 2016
P M Bunker	Resigned 01 January 2016
J B O'Roarke	Resigned 05 May 2016
M J Rogers	Resigned 28 July 2016
S V Castle	Resigned 19 September 2016
R A Warner	Resigned 01 October 2016
S R Haynes	Resigned 01 October 2016
M Laidlaw	Resigned 01 October 2016

Company secretary
R S Small

Registered office
County Gates
Bournemouth
BH1 2NF

Tel: 01202 292333

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

1. Results and dividends

The loss for the year attributable to the owners of the parent is £13,978,000 (2015: profit £54,458,000) as set out on page 13. The Directors have declared and paid £3,400,000 in the current year to the parent company as dividends (2015: £37,980,000 ordinary share dividends). See note 32 for further details.

2. Principal activities

Liverpool Victoria Insurance Company Limited ('Company') principal purpose is the undertaking of general insurance business through both the direct and broker distribution channels. The primary sources of premium income are from the sale of Motor insurance products, Home insurance products and Insurance for Small and Medium Size Enterprises ('SME'). Motor insurance products include Private Car, Specialist Car, Fleet, Motorcycle and Commercial Vehicles. The Company also underwrites Road Rescue, Pet and Travel Insurance.

3. Business review and developments

(a) Results and performance

The profit before tax before the impact of the Ogden discount rate change, was £85,943,000, a 31% increase compared to 2015. This reflects strong investment returns and a strong increase on the underwriting result. 2016 ended with our customers holding almost 4.4m LV= policies, an increase of 6%, and both measures of customer satisfaction improving year on year.

In March 2017 the Ogden discount rate dropped from 2.5% to -0.75%, and the result of this was to increase our 2016 claims figure by £112,700,000.

The 2016 results for the Company after the impact of the Ogden rate change show a loss before taxation of £19,823,000 (2015: profit £65,486,000.)

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

1. Premium written: Market conditions have remained competitive, particularly in Motor. The Motor market in general is now supporting price increases so volumes are continuing to remain stable. The Company has therefore been able to hold its competitive position. In addition to this, the Company has continued its strategy to diversify its reliance upon Motor through growth in the SME and Direct Home lines of business.

2. Underwriting result: The Company's underwriting result initially remained strong during 2016 but has since been impacted significantly by the drop in the Ogden rate, delivering a combined ratio of 105.3% (2015: 95.3%). The reserves have now been strengthened by £112,700,000 to account for the movement in the Ogden discount rate.
   The high level of reserve run-off seen during the prior year was mostly due to favourable claims experience development trends. This was an exceptional set of circumstances which wasn't expected to be repeated in 2016.

3. Investment returns: Investment returns were positive over 2016 due to the strong performance from equities and credit bonds. The continued low underlying interest rate market resulted in low income returns but this was offset by higher capital returns in Equities and Corporate bonds.

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. Specifically we have continued to implement a major multi-year project aimed at replacing our Direct Division front systems to ensure that we are well positioned for future challenges. Pre Ogden, overall expenditure has decreased, with favourable impacts from commissions and lower than expected costs.

5. Claims: During 2016 the impact of the change in the Ogden rate from 2.5% to -0.75% has seen the Company's result before tax move from a £85,943,000 profit, to a £19,823,000 loss. The Company also saw adverse current year claims experience affecting the claims performance. Underlying claims costs were hit by the increased costs of putting right damage to vehicles, mainly third parties.

3. Business review and developments (continued)

(a) Results and performance (continued)

6. Reinsurance: In the latter part of 2015 the Company entered into a Loss Portfolio Transfer (LPT) Agreement resulting in reinsurance of 20% of its booked reserves, and from 1 January 2016 a 20% quota share arrangement.

7. Direct Division: The Direct Division operates under the LV= and Britannia Rescue brands. Under the LV= brand it offers personal lines products including Motor, Home, Travel and Pet Insurance. Road Rescue is offered under the Britannia Rescue brand. Our direct business achieved its second successive year of continued growth in LV= branded motor and home portfolios due to strong sales and market leading renewal retention. The Direct Division increased overall number of in-force policies by 7%, written premiums at £912,700,000 (2015: £837,300,000) have also increased year on year by 9%.
   To support sustainable profitable growth, and respond to evolving customer needs and market developments, we are investing heavily in our Pioneer Programme. This will replace our legacy policy systems and transform our Motor and Home distribution capability, and so we will be able to provide a better customer experience.

   Broker Division: The Broker Division offers both personal lines (primarily Motor) and SME products under the ABC Insurance brand. During 2016 this division wrote premiums of £668,700,000, a 5% increase on the previous year (2015: £634,700,000). Conditions have been difficult in the highly competitive broker home market, so following consultation we have decided to withdraw this product from April 2017.

(b) Business environment

During the first part of the year the UK Motor insurance market started to support stronger rates and price increases, building momentum towards more sustainable pricing levels. Home and SME markets remained very competitive throughout the year with market rates delivering low long term margins at best.

The subdued financial markets mean that UK insurers cannot rely on investment returns to deliver as much income as has been generated in the past. Pressure therefore falls on the underwriting activities to deliver higher returns to meet overall financial targets.

Despite these conditions, the Company continued to deliver acceptable policy growth in its target market segments and now has over 4.4 million policies across an increasingly broad range within the product lines.

3. Business review and developments (continued)

(c) Strategy
The long-term objective of the Company is as follows:

In line with the LV= group, our vision remains to be Britain's best loved insurer, and in 2016 a new clear ambition was set to transform from a top five UK car insurer to a top five UK general insurer. Achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperforming in the motor market, and driving strong and profitable growth in the commercial market.
Our core products remain Motor, Home and SME (commercial insurance for Small Medium Enterprises), which are supported by more minor lines such as Road Rescue, Travel and Pet. We continue to utilise a range of strong brands including LV=, ABC and Britannia Rescue. The Company aims to deliver attractive and consistent returns to the members of Liverpool Victoria Friendly Society Limited ('LVFS')."

(d) Principal risks and uncertainties
Pricing: Private Motor market rates increased rapidly in the latter half of 2015, levelling off in 2016. The Motor market in general supported price increases in 2016 in order to achieve acceptable margins. While pricing in the market finally began to harden the rate increases achieved were eroded by an acceleration in overall market claims inflation. The Home and SME markets continue to be very competitive and there is little evidence to suggest that this will change during 2017.

Economic Environment: The financial market environment during the course of 2016 has been volatile and returns subdued or negative. There has been increased uncertainty following the EU referendum result. This situation looks set to remain going into 2017 with significant uncertainties around interest rates, credit spreads, yield levels, and equity markets. As a result, the overall investment return is predicted to remain relatively low (by historical standards) and unpredictable for the next few years.

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

Business Change: The Company is still going through a number of material transformation processes (including a full review of some of its core systems) as it continues to prepare for the future. Such change carries with it an element of operational risk; however, the Directors mitigate this risk through a disciplined project management approach.

Distribution/Market developments: The influence of the mobile internet and of price comparison websites (commonly referred to as "aggregators") continue to transform the UK business environment, although it could be argued that the use of aggregators is now a market norm. Social media continues to be a material feature influencing the way that the Company conducts its business, and is therefore monitored closely by the Company. Insurance specific developments in technology (such as crash avoidance systems, driverless cars etc.) are other potential factors of material market transformation in the future. The Company is ensuring that it is prepared to respond quickly to changing circumstances.

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

Regulatory: A number of legal and regulatory developments affected the UK insurance market during 2016 and will continue into 2017. These include:

1. Solvency II: The Directors monitor all developments and have taken appropriate action to ensure that the Company is well prepared for the Solvency II capital regime which took effect from 1 January 2016. This regime has required significant changes to the solvency and capital management processes of both insurance companies and regulators. The Company used the Standard Formula to calculate its capital requirements throughout 2016, and has applied for Internal Model approval in 2017.

3. Business review and Developments (continued)

(d) Principal risks and uncertainties (continued)

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 (e.g. consultation over ancillary fees and price comparison websites). This may result in requirements to change practice in product design, distribution and pricing. While the Company considers that customer value is at the heart of the way it does business, as evidenced by market leading customer satisfaction and recommendation scores, there is a risk that such interventions designed to address general market concerns cause incidental cost and disruption to the Company.

3. Ogden discount rate: The Ogden discount rate changed in February 2017 – the rate is 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. The rate decreased from 2.5% to -0.75% which had an impact of £112.7m on the reserves the Company needs to hold.

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

(e) Future outlook

We will continue to price all our insurance policies in order to provide a fair and reasonable price for our customers rather than one which is not sustainable, and we will not chase growth at the expense of putting our future at risk. Any growth will come from moderate price and volume increases in both the Direct and Broker operations and further diversification into SME and Direct Home products. The Company expects to deliver underwriting profits in 2017 through the price increases implemented at the end of 2016, while retaining its focus on high levels of customer service and delivering fair customer outcomes.

(f) Adjusting post year end events

Ogden discount rate; Toward the end of 2016 the Ministry of Justice announced its intention to review the discount rate used to adjust personal injury damages awards. With effect from 20th March 2017 the discount rate dropped from 2.5% to minus 0.75%, and the result of this was to increase our 2016 claims incurred figure.
Dividends; A £40m capital injection was declared from the parent company, and this was authorised for issue in Febuary 2017 but not recognised during the period (2016). The change in the Ogden discount rate had an adverse impact on the company, which required a £40 million capital injection. The remaining costs were absorbed as prior to the announcement the capital coverage ratio was above the targeted position.
The Directors of the subsidiary LVRS also declared a £7m dividend to be paid to the company and this was authorised for issue in February 2017 but not recognised during the period (2016).
There have been no other 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	2016	2015	Comments
Premiums written	£1218.7m	£1142.1m	As a result of implementing price increases where possible (particularly in Motor) during late 2015 and throughout 2016, the Company reported a year on year increase in the premium written by 6.7%. This was also supported by an underlying policy count increase of 5.4% across a number of lines of business.
Underwriting loss ratio	82.1%	67.2%	Showing a year on year increase, the overall reported loss ratio after reinsurance of 82.1% has been impacted mainly by Ogden, along with adverse current year claims experience.
Expense ratio *	23.2%	28.1%	The headline Expense Ratio was adversely impacted by the LPT reinsurance arrangement at the end of 2015. The 2015 underlying expense ratio before LPT was 23.5%. The year on year expense ratio has therefore remained reasonably consistent. Whilst the overall level of expenditure has increased, it did so at a lower level than the increase in earned premiums.
Combined ratio	105.3%	95.3%	An overall combined ratio of 105.3% is higher than 2015 primarily due to the Ogden rate change as noted above, combined with adverse current year claims experience.
Investment return	£30.3m	£25.8m	Total investment return includes Investment income and Net fair value gains/losses on financial assets. Overall returns reflected low interest rates and poor equity returns. The Company achieved a total investment return of £30.3m which equates to a total annualised return of 2.1%, (2015: 1.4%).
Net assets	£616.9m	£634.3m	Net assets are £17.4m lower than 2015 primarily due to the Ogden rate change.

* Expense ratio excludes amortisation of goodwill, share scheme provisions and Group strategic initiatives and investment management costs, but includes interest earned from selling policies on instalments and ancillary income derived from the sale of the principal products.

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

On behalf of the Board of Directors

R Rowney
Director
11 April 2017

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.
- Post Balance Sheet events.

1. Directors and their interests

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

2. Parent company

The Company is a wholly owned subsidiary of LVGIG. The ultimate parent company is Liverpool Victoria Friendly Society Limited ('LVFS'), a friendly society incorporated under the Friendly Societies Act 1992.

3. Employees

The Company did not directly employ any staff during 2016. Instead it utilised the staff and premises of LVFS in carrying out its activities and incurred the cost of staff through management charges.

4. Directors' indemnity statement

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

5. Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 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.

The Directors are responsible for the maintenance and integrity of information relating to the Company which is included on LVFS's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

6. 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 information relevant to the audit ("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 Audit Information and to establish that the Company's auditors are aware of that information.

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

R S Small
Company Secretary

11 April 2017

Report on the financial statements

Our opinion

In our opinion, Liverpool Victoria 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 2016 and of its loss 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

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- 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 IFRSs as adopted by the European Union, and applicable law.

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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 9, 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 Annual Report 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andrew G Hill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 April 2017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Insurance contract premium revenue	5	**1,182,214**	1,104,369
Insurance contract premium ceded to reinsurers	5	**(264,984)**	(208,207)
Net premium revenue		**917,230**	896,162
Investment income	6	**41,272**	54,524
Net fair value losses on financial assets at fair value through income	7	**(10,969)**	(28,719)
Other income	8	**37,022**	34,873
Total income		**984,555**	956,840
Insurance claims and loss adjustment expenses	9	**(981,817)**	(794,488)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**229,019**	191,882
Net insurance claims		**(752,798)**	(602,606)
Other operating and administrative expenses	10	**(251,580)**	(288,748)
Total claims and expenses		**(1,004,378)**	(891,354)
(Loss)/Profit before tax		**(19,823)**	65,486
Income tax credit / (expense)	13	**5,845**	(11,028)
(Loss)/Profit for the year attributable to owners of the parent		**(13,978)**	54,458
Total comprehensive (expense)/income for the year		**(13,978)**	54,458

All balances relate to continuing business.
The notes on pages 17 to 60 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

		Attributable to equity holder of the Company			
		Share capital	**Retained earnings**	**Capital reserve**	**Total Equity**
	Note	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2016		**344,908**	**148,796**	**140,564**	**634,268**
Dividends	32	**-**	**-**	**(3,400)**	**(3,400)**
Loss for the financial year	33	**-**	**(13,978)**	**-**	**(13,978)**
Balance at 31 December 2016		**344,908**	**134,818**	**137,164**	**616,890**

		Attributable to equity holder of the Company			
		Share capital	Retained earnings	Capital reserve	Total Equity
	Note	£000	£000	£000	£000
Balance at 1 January 2015		344,908	94,338	178,544	617,790
Dividends	32	-	-	(37,980)	(37,980)
Profit for the financial year	33	-	54,458	-	54,458
Balance at 31 December 2015		344,908	148,796	140,564	634,268

The notes on pages 17 to 60 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	**2016 £000**	2015 £000
Assets			
Intangible assets	14	**17,612**	17,792
Investments in group undertakings	16	**301,112**	301,112
Prepayments and accrued income	17	**24,985**	20,992
Deferred acquisition costs	15	**73,752**	72,472
Financial assets			
- Fair value through income	18	**1,015,187**	1,031,295
- Derivative financial instruments	19	**-**	1,249
Current tax asset	20	**13,409**	-
Loans and other receivables	21	**197,660**	34,003
Reinsurance assets	22	**302,497**	238,221
Insurance receivables	23	**231,716**	201,757
Cash and cash equivalents	24	**205,436**	453,339
Total assets		**2,383,366**	2,372,232
Liabilities			
Insurance contract liabilities	25	**1,671,984**	1,500,513
Provisions	26	**-**	13
Current tax liability	20	**-**	1,495
Deferred tax liability	27	**930**	869
Financial liabilities			
- Derivative financial instruments	19	**15,244**	-
- Other	28	**-**	870
Insurance payables	29	**22,485**	187,921
Trade and other payables	30	**55,833**	46,283
Total liabilities		**1,766,476**	1,737,964
Equity			
Share capital	31	**344,908**	344,908
Capital reserve	32	**137,164**	140,564
Retained earnings	33	**134,818**	148,796
Total equity		**616,890**	634,268
Total liabilities and equity		**2,383,366**	2,372,232

The notes on pages 17 to 60 are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 11 April 2017.

Signed on behalf of the Board of Directors

P W Moore
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 Restated £000
Cash and cash equivalents at 1 January	24	**445,729**	192,097
Cash flows arising from:			
Operating activities			
Cash (used in)/generated from operating activities	34	**(329,446)**	51,791
Net decrease in investments at fair value through income		**21,634**	167,209
Dividend income received	6	**8,715**	7,535
Intragroup dividend received	6	**-**	3,000
Interest income received	2	**62,419**	76,621
Group relief paid	20	**(4,126)**	(1,863)
Income tax paid	20	**(4,871)**	(12,681)
Net cash flows (used in)/generated from operating activities		**(245,675)**	291,612
Financing activities			
Dividends paid	32	**(3,400)**	(37,980)
Net cash flows used in financing activities		**(3,400)**	(37,980)
Net (decrease)/increase in cash and cash equivalents		**(249,075)**	253,632
Cash and cash equivalents at 31 December	24	**196,654**	445,729

The notes on pages 17 to 60 are an integral part of the financial statements.

1. General information

The Company is limited by shares and incorporated in the United Kingdom. The Company underwrites general insurance risks, including motor and household risks. All contracts of insurance are written in the United Kingdom or the Channel Islands.

2. Accounting policies

BASIS OF PRESENTATION

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

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through income.

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

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

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

Reclassification

The prepayments and accrued income note has been restated for 2015 to reflect the reclassification of accrued income – debtors, that was previously included with accrued interest. This is now correctly stated separately in note 17. Following this reclassification there was no impact on the Company’s profit, net assets or tax. The directors have chosen to do this to be consistent with the LV Group accounts.

	2016	2015 Restated	2014
Accrued interest **restated**	**£000**	£000	£000
Opening bal	**12,477**	19,244	14,321
Interest for year	**62,832**	69,854	71,339
Closing bal	**12,890**	12,477	19,244
Received	**62,419**	76,621	66,416

	2016	2015	2014
Accrued interest as previously reported	**£000**	£000	£000
Opening bal		24,230	19,307
Interest for year		69,855	71,339
Closing bal		19,505	24,230
Received		74,580	66,416

Consolidation
The financial statements present information about the Company as an individual undertaking and not about its group. The Company has not prepared group financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006, as it is a subsidiary undertaking of Liverpool Victoria Friendly Society Limited (LVFS), a company incorporated in England and is included in the consolidated financial statements of the Liverpool Victoria Friendly Society Limited.

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.

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.

2. Accounting policies (continued)

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.

2. Accounting policies (continued)

Deferred acquisition costs
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 all allowable 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. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the Statement of Comprehensive Income and an unexpired risk reserve established.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired book of business at the acquisition date and is included in intangible assets. Goodwill is reviewed for impairment at the end of the first full year of acquisition. Thereafter, it is tested at each Statement of Financial Position date for impairment against the recoverable amount (being the higher of value in use or fair value less cost) of the relevant cash generating unit and carried in the Statement of Financial Position at cost less accumulated impairment losses.

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

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

Investments in Group undertakings
The subsidiaries are held in the Company’s Statement of Financial Position at cost less any provision for impairment. An assessment of the realisable value is made at the year end and, if the Directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

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.

2. Accounting policies (continued)

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. Day one gains or losses are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

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 reverse repurchase agreements, cash collateral pledged and other receivables. Loans and other receivables are initially recognised at fair value and then subsequently held at amortised cost. Amounts included for reverse repurchase agreements represent the consideration paid to the borrower and are accounted for as a loan at amortised cost.

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

2. Accounting policies (continued)

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.

Reinsurance assets
Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on the insurance contracts issued by the Company are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insured and the insurer. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

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

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.

2. Accounting policies (continued)

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.

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. A separate asset is recognised for reinsurance recoveries which are accounted for in the same period as the related claim.

Provision is made for the estimated cost of claims incurred but not settled, 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. In the case of Periodic Payment Orders (PPOs), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

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.

Dividend distribution

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

2. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES

(i) New and amended standards adopted by the Company

Although no new standards have come into effect, amendments to IFRSs have been adopted by the EU for accounting periods beginning on or after 1 January 2016. These amendments have been adopted by the Company but do not have a material impact on the 2016 financial statements.

IAS 1, 'Presentation of financial statements', has been amended as part of the Disclosure Initiative. The amendments focus on materiality and aggregation, primary statement presentation requirements, structure of notes, and disclosure of accounting policies.

Other than as set out above, no new or amended accounting standards and interpretations were adopted for the 2016 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 2017, 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:

Amendment to IFRS 4 'Insurance contracts': Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts', effective from 1 January 2018. This amendment has been issued to address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. The amendment provides two approaches that can be applied by eligible insurers; the overlay approach and the temporary exemption from IFRS 9. The Company is an eligible insurer and intends to take the temporary exemption from IFRS 9 due to the uncertainty regarding accounting for insurance contracts and the impact of this upon the classification of financial assets.

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

3. Significant accounting judgements, estimates and assumptions

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

Fair value of financial assets
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.

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;
- 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 and household insurance policies are exposed to claims for subsidence.

The estimation of the ultimate cost of large bodily injury claims follows a more complex stochastic process given that these claims typically exhibit low frequency and high severity, and hence the outcome is highly uncertain. Significant factors that affect the large injury claims estimation process are legislation (e.g. the Ogden discount rate used to value lump sum settlements), judicial decisions and the long delay to settlement. Over the last decade, there has been an increasing prevalence of Periodic Payment Order ('PPO') settlements given that the Ogden discount rate was set at 2.5% and at a time when real yields were very low. These settlements have an annuity-type structure, i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request for a PPO settlement. Due to all these factors, the future development of bodily injury claims have a high degree of uncertainty compared to non-injury claims.
On 27th February of 2017, the Lord Chancellor announced a change in the Ogden discount rate from the 2.5% to a minus 0.75%. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term. The impact of this Ogden change has led to an increase in bodily injury reserves of circa £112.7m (IFRS basis post LPT/QS) for LV and has significantly impacted other insurers in the market. The change in the Ogden discount rate is expected to make the lump sum settlement more attractive to claimants than a PPOs settlement, without reducing the cost of a PPO claim. Overall PPOs claims reserves should reduce due to lower propensity but these claims would be replaced by more expensive lump sum settlements

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

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.

Claims provisions are subject to close scrutiny, both within the Company and across the wider LVFS Group. The Group has a Reserving 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.

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

Valuation of subsidiaries
The valuation of the subsidiary company Highway involves a significant judgement and any impairment of this subsidiary is assessed bi-annually.
Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary's value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period covered by the formal Annual Plan 2017 – 21 and discounted to its present value.

Other
The judgements, estimations and assumptions around financial assets and claims judgements are discussed in Note 4.

4. Capital management and risk management and control

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

The Company retains capital to meet four key objectives:

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

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

In the latter part of 2015 the Company entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves. The Company also entered into a 20% Quota Share arrangement for 2016-2018 (each year treated separately). The primary driver of both transactions was efficient capital management.

2015 was the final year of the PRA's ICAS solvency regime. Under this regime, the PRA imposed two separate capital requirements on the Company: the Minimum Capital Requirement ('MCR') as defined in the PRA regulations and reported publicly in the annual PRA returns prepared by the Company's regulated subsidiaries; and Individual Capital Guidance ('ICG'), which is entity specific and was derived using a more risk-related approach as set out in the PRA regulations. The ICG was calculated and updated by the PRA following its reviews on a regular basis of the Company's own Individual Capital Assessment ('ICA').

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

As at 31 December 2016, the Company disclosed regulatory capital of £506,488,455 (Solvency II) (2015: £510,263,867 (Solvency II) and £556,536,000 (Solo adjusted pillar 1 capital)) being the capital reported to the Bank of England in the Solvency II Q4 return.

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

4. 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 Solvency II capital requirements.

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

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

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

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

Property business (domestic and commercial) is exposed to catastrophic risks such as those resulting from storms or floods as well as risks such as subsidence. The Company has entered into reinsurance contracts which provide protection against catastrophic weather events.

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 (2015 : £5.0m per claim).

SME business is exposed to large individual property losses and also to liabilities arising from employment and commercial activities. The Company has entered into reinsurance contracts which provide protection against these liabilities.

In addition to the reinsurance contract described above, the Group has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves. The Group also entered into a 20% Quota Share arrangement for 2016-2018 (each year treated separately). Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the LVFS group exposure to general insurance concentration risk.

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

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

	2016			2015		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**905,303**	**(258,235)**	**647,068**	751,914	(190,444)	561,470
Household	**59,477**	**(10,530)**	**48,947**	72,204	(14,441)	57,763
Travel	**2,090**	**(296)**	**1,794**	1,781	(356)	1,425
Commercial	**86,294**	**(16,844)**	**69,450**	93,790	(19,565)	74,225
Other	**7,163**	**(38)**	**7,125**	5,675	(1,135)	4,540
	1,060,327	**(285,943)**	**774,384**	925,364	(225,941)	699,423

The claims provision is the estimated cost of outstanding claims from expired risks. The provision is calculated largely from using the Company's own 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 Group's reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions, for example, a change in the Ogden discount rate. This is the discount rate set by the relevant government bodies and used by courts to calculate lump sum awards in bodily injury cases. The rate is currently -0.75% per annum (2015: 2.5%) but is under review by the Ministry of Justice. The Group has estimated its reserves using this rate.

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

Uncertainty in claims estimation is larger for claims such as PPOs for which annually indexed payments are made typically over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate. The table below provides a sensitivity analysis of the potential impact of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Company.

	Increase / (Decrease) in income statement		Increase / (Decrease) in total equity at 31st December	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
PPOs				
Impact of a 1% increase in the discount rate used to value PPOs	**4.0**	11.2	**4.0**	11.2
Impact of a 1% reduction in the discount rate used to value PPOs	**(6.0)**	(16.0)	**(6.0)**	(16.0)
Ogden				
Impact of an increase in the Ogden discount rate of 1%	**44.0**	*	**44.0**	*
Impact of a decrease in the Ogden discount rate of 1%	**(60.0)**	*	**(60.0)**	*

1. The sensitivities relating to an increase or decrease in the discount rate used for PPOs illustrate a movement in the time value of money.
2. The sensitivities relating to an increase or decrease in the Ogden discount rate illustrate a movement in the value from the current level of -0.75% for all claims including IBNR.
3. The selection of these sensitivities should not be interpreted as a prediction.

* 2015 comparator not available

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

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

Analysis of claims development – gross of reinsurance

Accident year	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Initial estimate of gross provision	373.4	331.2	375.9	523.5	620.0	803.7	833.7	827.9	799.1	879.7	
One year later	315.8	296.6	362.8	548.3	632.9	766.4	791.0	793.2	845.9		
Two years later	290.9	280.2	356.8	555.5	624.7	748.6	774.5	781.4			
Three years later	285.3	278.0	353.4	551.9	620.0	728.4	758.5				
Four years later	284.8	277.4	357.8	547.3	617.9	717.3					
Five years later	284.7	277.8	353.8	545.1	606.1						
Six years later	286.0	275.4	354.0	523.1							
Seven years later	286.1	276.3	336.0								
Eight years later	286.0	260.0									
Nine years later	281.0										
Current estimate of cumulative claims	281.0	260.0	336.0	523.1	606.1	717.3	758.5	781.4	845.9	879.7	5989.0
Cumulative payments to date	(278.3)	(257.1)	(331.2)	(504.6)	(578.8)	(686.1)	(647.8)	(607.9)	(608.5)	(445.6)	(4,945.9)
Liability recognised for 2007 to 2016 accident years	2.7	2.9	4.8	18.5	27.3	31.2	110.7	173.5	237.4	434.1	1,043.1
Liability recognised in respect of prior accident years											4.2
Claims handling provision											13.0
Provision as at 31 December 2016											**1,060.3**

Analysis of claims development – net of reinsurance

Accident year	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Initial estimate of net provision	369.1	327.5	372.6	518.2	613.8	792.5	822.4	817.5	704.8	772.1	
One year later	311.4	291.7	356.9	542.8	619.7	762.2	781.6	743.1	782.1		
Two years later	288.6	276.4	345.7	549.4	618.4	745.4	738.7	731.3			
Three years later	283.0	274.9	342.1	541.7	614.7	717.3	727.7				
Four years later	282.6	273.8	347.3	536.5	602.6	710.7					
Five years later	283.5	275.1	345.2	532.1	594.5						
Six years later	284.4	273.8	342.6	507.3							
Seven years later	285.0	272.7	326.8								
Eight years later	283.3	257.3									
Nine years later	278.6										
Current estimate of cumulative claims	278.6	257.3	326.8	507.3	594.5	710.7	727.7	731.3	782.1	772.1	5688.4
Cumulative payments to date	(277.4)	(256.1)	(325.0)	(499.2)	(577.8)	(686.1)	(646.5)	(607.9)	(608.5)	(445.6)	(4,930.1)
Liability recognised for 2007 to 2016 accident years	1.2	1.2	1.8	8.1	16.7	24.6	81.2	123.4	173.6	326.5	758.3
Liability recognised in respect of prior accident years											3.4
Claims handling provision											12.7
Provision as at 31 December 2016											**774.4**

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

Market risk
Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has defined policies and procedures in place to control the major components of market risk. Exposures to individual companies and to equity shares in aggregate are monitored by 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 had no exposure to currency risk during 2016 (2015: no exposure).

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

Sensitivity analysis to market risks
The table below shows the results of sensitivity testing on the Company's pre-tax profit and equity. The sensitivity analysis indicated the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities. The sensitivities in the table can be impacted by the use of derivative financial instruments, which are detailed in note 19.

	Impact on profit before tax 2016 £000	**Impact on equity 2016 £000**	Impact on profit before tax 2015 £000	Impact on equity 2015 £000
Interest rate risk				
+ 100 basis points shift in yield curve	**(28,499)**	**(22,799)**		
+ 50 basis points shift in yield curve			5,770	4,616
- 50 basis points shift in yield curve	**16,406**	**13,124**	(5,856)	(4,685)
Credit spread risk				
100 basis points widening in all credit spreads	**(10,370)**	**(8,296)**	(11,137)	(8,909)
100 basis points tightening in all credit spreads	**-**	**-**	10,817	8,654
50 basis points tightening in all credit spreads	**5,303**	**4,243**		
Equity risk (including derivatives)				
20% increase in equity markets	**-**	**-**	11,662	9,330
20% decrease in equity markets	**(17,330)**	**(13,864)**	(14,578)	(11,662)

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

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at 31 December 2016 was £46.8 million (2015: £48.6 million), 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.

Exposure to policyholder risk is managed by a credit default policy. The policy servicing function monitors the ageing of policyholder balances, where policies are sold on instalment terms, and will cancel policies at the point of default. When the debt goes into arrears it is managed to ensure it is collected where possible**.**
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 2016	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Debt and other fixed income securities	186,358	92,570	194,435	220,594	51,114	-	745,071
Short-term bank deposits	-	38,999	137,578	16,996	-	2,501	196,074
Loans and other receivables	-	-	133,332	-	-	64,328	197,660
Insurance receivables	-	-	12,709	-	-	219,007	231,716
Reinsurance assets	-	283,466	18,844	-	-	187	302,497
Total exposure	**186,358**	**415,035**	**496,898**	**237,590**	**51,114**	**286,023**	**1,673,018**

	AAA	AA	A	BBB	Below BBB	Not rated	Total
Credit risk exposure 2015	£000	£000	£000	£000	£000	£000	£000
Debt and other fixed income securities	180,831	114,451	164,744	227,777	40,778	-	728,581
Short-term bank deposits	4,491	108,501	201,227	58,002	25,003	-	397,224
Loans and other receivables	-	-	-	-	-	34,003	34,003
Insurance receivables	-	-	-	-	-	201,757	201,757
Reinsurance assets	-	220,414	14,427	-	-	3,380	238,221
Total exposure	185,322	443,366	380,398	285,779	65,781	239,140	1,599,786

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

Offsetting financial assets and financial liabilities

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

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

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

As at 31 December 2016	**Amounts off set**			**Related amounts not off set**		
	Gross assets	**Gross liabilities off set**	**Net amounts presented**	**Financial Instruments**	**Cash Collateral pledged**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Derivative financial liabilities	**15,244**	**-**	**15,244**	**-**	**15,700**	**-**
Bank overdrafts	**18,014**	**(9,232)**	**8,782**	**-**	**-**	**-**
Total	**33,258**	**(9,232)**	**24,026**	**-**	**15,700**	**-**

As at 31 December 2015	Amounts off set			Related amounts not off set		
	Gross liabilities	Gross assets off set	Net amounts presented	Financial Instruments	Cash Collateral pledged	Net amount
	£000	£000	£000	£000	£000	£000
Derivative financial assets	1,249	-	1,249	-	(870)	-
Total	1,249	-	1,249	-	(870)	-

	Amounts off set			Related amounts not off set		
	Gross assets	Gross liabilities off set	Net amounts presented	Financial Instruments	Cash Collateral received	Net amount
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Bank overdrafts	19,194	11,584	7,610	-	-	-
Total	19,194	11,584	7,610	-	-	-

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

As at 31 December 2016, LVIC was not holding any counterparty collateral (2015 £0.9m).
In accordance with IFRS 7 the amount reported in the table above is limited to the amount of the derivative asset reported in the Statement of Financial Position.

Collateral posted to Liverpool Victoria Insurance Company Limited by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association (ISDA) agreement. This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex if such failure is not remedied within 30 days after notice of such failure is given. Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the 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 2016 £1.5m (2015: £0.2m) 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 2016	**<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	**1,389**	**52**	**27**	**136**	**1,604**	**1,475**	**228,637**	**231,716**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**197,660**	**197,660**

Age analysis of assets past due/impaired 2015	<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	2,841	382	119	134	3,476	197	198,084	201,757
Loans and other receivables	-	-	-	-	-	-	34,003	34,003

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

Liquidity risk

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

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

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:

	2016			2015		
	Within 1 year	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
Maturity profile of financial assets	**£000**	**£000**	**£000**	£000	£000	£000
Financial assets						
- Fair value through income	**334,207**	**680,980**	**1,015,187**	519,873	511,422	1,031,295
- Derivative financial instruments	**-**	**-**	**-**	1,249	-	1,249
Loans and other receivables	**197,660**	**-**	**197,660**	34,003	-	34,003
Reinsurers' share of claims outstanding	**85,459**	**200,484**	**285,943**	80,533	145,408	225,941
Insurance receivables	**231,716**	**-**	**231,716**	201,757	-	201,757
Accrued interest and income	**22,535**	**-**	**22,535**	19,505	-	19,505
Cash and cash equivalents	**205,436**	**-**	**205,436**	453,339	-	453,339
	1,077,013	**881,464**	**1,958,477**	1,310,258	656,830	1,967,089

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

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

Maturity profile of financial and insurance liabilities 2016	**Within 1 year £000**	**1-3 years £000**	**3-5 years £000**	**Over 5 years £000**	**Total £000**
Insurance contract liabilities	**471,482**	**409,355**	**139,343**	**40,147**	**1,060,327**
- Derivative Financial Instruments	**12,893**	**-**	**-**	**2,351**	**15,244**
Insurance payables	**22,485**	**-**	**-**	**-**	**22,485**
Trade and other payables - excluding tax and social security costs	**26,479**	**-**	**-**	**-**	**26,479**
	533,339	**409,355**	**139,343**	**42,498**	**1,124,535**

Maturity profile of financial and insurance liabilities 2015	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	431,864	380,739	87,551	25,210	925,364
Provisions	13	-	-	-	13
- Other Financial Liabilities	870	-	-	-	870
Insurance payables	187,921	-	-	-	187,921
Trade and other payables - excluding tax and social security costs	22,167	-	-	-	22,167
	642,835	380,739	87,551	25,210	1,136,335

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 2016.

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.

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

Fair value estimation (continued)
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

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

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

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

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

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

		2016				2015		
	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	**-**	**269,383**	**733**	**270,116**	-	301,981	733	302,714
Debt and other fixed income securities	**-**	**745,071**	**-**	**745,071**	6,952	721,629	-	728,581
Derivative financial instruments	**-**	**(15,244)**	**-**	**(15,244)**	-	-	(1,249)	(1,249)
Collateral pledged / (received)	**15,700**	**-**	**-**	**15,700**	(870)	-	-	(870)
Total	**15,700**	**999,210**	**733**	**1,015,643**	6,082	1,023,610	(516)	1,029,176

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

Movement in Level 3 Financial Instruments measured at fair value:

	Fair value through income	**Derivative financial instruments**	**Total**
	£000	**£000**	**£000**
Balance at 1 January 2016	**733**	**(1,249)**	**(516)**
Sales	**-**	**1,249**	**1,249**
Balance at 31 December 2016	**733**	**-**	**733**

	Fair value through income	Derivative financial instruments	Total
	£000	£000	£000
Balance at 1 January 2015	733	(24,990)	(24,257)
Total gain recorded in statement of comprehensive income	-	24,990	24,990
Purchases	-	(1,249)	(1,249)
Balance at 31 December 2015	733	(1,249)	(516)

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

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

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

Description	**Fair value at 31 December 2016 £000**	**Valuation technique(s)**	**Unobservable Inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Shares, other variable yield securities and units in unit trusts					
- UK unlisted	**733**	**Recent arm's length transaction**	**Price per unit**	**Distributions or calls since last valuation**	**Contractual purchase and exit price**

Description	Fair value at 31 December 2015 £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					
- UK unlisted	733	Recent arm's length transaction	Price per unit	Distributions or calls since last valuation	Contractual purchase and exit price
Equity/Index	1,249	Mark-to-model	Equity volatility	Several percentage points	Impact is dependent on the moniness of the respective bought and sold positions

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

Operational risk

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

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

Strategic risk

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

5. Net premium revenue

	2016	2015
	£000	£000
Insurance contracts		
Premiums written	**1,218,722**	1,142,066
Change in unearned premium reserve	**(36,508)**	(37,697)
Premium revenue arising from insurance contracts issued	**1,182,214**	1,104,369
Reinsurance contracts		
Premiums payable	**(269,258)**	(207,505)
Change in unearned premium reserve	**4,274**	(702)
Premium revenue ceded to reinsurers on insurance contracts issued	**(264,984)**	(208,207)
Net premium revenue	**917,230**	896,162
Motor	**794,839**	720,365
Property	**166,803**	170,139
Commercial	**134,068**	131,266
Other	**86,504**	82,599
	1,182,214	1,104,369

Other premium revenue includes Travel, Legal, Pet Insurance and Road Rescue.

In the latter part of 2015 the Company entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its general insurance business booked reserves as at 31 December 2015. This had an impact of £174.9m on premiums ceded to reinsurers during 2015. From 1 January 2016 the Company has been part of a Quota Share agreement resulting in reinsurance of 20% of its general insurance gross earned premiums. This had an impact of £228.8m on premiums ceded to reinsurers during 2016.

6. Investment income

	2016	2015
	£000	£000
Income from investments and cash and cash equivalents		
- Interest income	**32,557**	43,989
- Dividend income	**8,715**	7,535
- Investment income from Group Undertakings	**-**	3,000
	41,272	54,524

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

	2016	2015
	£000	£000
- Debt securities	**(9,602)**	(29,142)
- Equity securities	**15,346**	2,093
- Derivative financial instruments	**(16,713)**	(1,670)
	(10,969)	(28,719)

Net fair value (losses)/gains on financial assets at fair value through income include net realised losses of £21,748,000 (2015: Loss £28,758,000) and net unrealised gains of £10,778,000 (2015: Gain £39,000).

8. Other income

	2016	2015
	£000	£000
Interest Receivable from insurance contracts	**30,275**	25,865
Other Income	**6,747**	9,008
	37,022	34,873

Other income is primarily comprised of fee and commission income.

9. Insurance claims and loss adjustment expenses

	2016	2015
	£000	£000
Gross insurance claims		
Claims paid during the year	**795,999**	702,712
Claims management costs	**50,855**	47,075
Movement in claims liabilities	**134,963**	44,701
	981,817	794,488
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(169,017)**	(2,098)
Movement in reinsurers' share of claims liabilities	**(60,002)**	(189,784)
	(229,019)	(191,882)
Net insurance claims	**752,798**	602,606

Included within claims incurred is an increase of £44.4m in respect of motor insurance business (2015: £73.7m decrease) and a decrease of £7.6m in respect of property insurance business (2015: £2.1m increase), 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. These have been calculated excluding margin.

In the latter part of 2015 the Company entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its general insurance business booked reserves as at 31 December 2015. This had an impact of £174.9m on the movement in reinsurers’ share of claims liabilities during 2015. From 1 January 2016 the Company has been part of a Quota Share agreement whereby the reinsurer is liable for 20% of general insurance claims paid. This had an impact of £179.4m on claims ceded to reinsurers during 2016.

10. Other operating and administrative expenses

	2016	2015
	£000	£000
Investment management expenses and charges	**1,925**	2,483
Acquisition expenses	**145,694**	143,632
Movement in deferred acquisition costs	**(1,280)**	453
Auditors' remuneration	**555**	264
Amortisation of intangibles	**180**	180
Impairment of insurance receivables	**1,475**	1,037
Administrative expenses	**103,031**	140,699
	251,580	288,748

11. Auditors' remuneration

	2016	2015
	£000	£000
Audit of the Company	**315**	236
Audit related assurance services	**120**	28
Tax advisory services	**14**	-
Other non-audit services not covered above	**106**	-
	555	264

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

12. Directors' emoluments

The Directors of the Company are remunerated by LVFS.

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

The aggregate amount of Directors' emoluments was as follows:

	2016	2015
	£000	£000
a) Aggregate emoluments	**5,816**	42,627

b) Emoluments of the Directors were as follows:

	Fees and Salaries	Bonus	Deferred bonus *	Other benefits	Long term incentive plan	2016 Total	2015 Total
	£000	£000	£000	£000	£000	£000	£000
Highest paid Director	**398**	**368**	**62**	**102**	**236**	**1,166**	10,742
All Directors	**2,808**	**1,003**	**105**	**516**	**1,384**	**5,816**	42,627

* Deferred bonus represents the amount of the 2016 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 2016 or 2015.
Further details on the Long Term Incentive Plan are disclosed within the Financial Statements of LVFS.

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

In 2016 there were £63,432 of contributions to the defined contribution section (2015: £73,371).

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

	2016	2015
Deferred pension at end of the year	£000	£000
All Directors	**156**	210

13. Income tax expense

a) Current year tax (credit) / expense

	2016 £000	2015 £000
Current year tax (credit) / expense		
Corporation tax	**(5,908)**	10,996
Adjustment to current tax in respect of prior years	**2**	-
Total current tax	**(5,906)**	10,996
Deferred tax		
Temporary differences	**61**	32
Total deferred tax	**61**	32
Total income tax (credit) / expense	**(5,845)**	11,028

b) Reconciliation of tax expense

The tax assessed for the period is higher (2015 lower) than the standard rate of corporation tax in the UK (20%). The differences are explained below:

	2016 £000	2015 £000
(Loss)/Profit before tax	**(19,823)**	65,486
(Loss) Profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**(3,965)**	13,263
Effects of:		
Impact of change in UK corporation tax rate on losses carried back	**(72)**	-
Impact of change in UK corporation tax rate on deferred tax balances	**(67)**	(99)
Income not subject to corporation tax	**(1,743)**	(2,132)
Adjustment to current tax in respect of prior years	**2**	(4)
Total income tax (credit) / expense for the year	**(5,845)**	11,028

14. Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2016	**15,812**	**3,375**	**19,187**
At 31 December 2016	**15,812**	**3,375**	**19,187**
Accumulated amortisation			
At 1 January 2016	-	**(1,395)**	**(1,395)**
Amortisation charge for the year	-	**(180)**	**(180)**
At 31 December 2016	-	**(1,575)**	**(1,575)**
Net book value at 31 December 2016	**15,812**	**1,800**	**17,612**
Net book value at 31 December 2015	15,812	1,980	17,792

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2015	15,812	3,375	19,187
At 31 December	15,812	3,375	19,187
Accumulated amortisation			
At 1 January 2015	-	(1,215)	(1,215)
Amortisation charge for the year	-	(180)	(180)
At 31 December 2015	-	(1,395)	(1,395)
Net book value at 31 December 2015	15,812	1,980	17,792
Net book value at 31 December 2014	15,812	2,160	17,972

Impairment testing of goodwill

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. The recoverable amount of the cash generating unit is based on value-in-use calculations. The calculations are based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect the Directors view of future performance.

15. Deferred acquisition costs

	2016 £000	2015 £000
At 1 January	**72,472**	72,925
Acquisition expenses deferred	**145,694**	143,632
Amortisation	**(144,414)**	(144,085)
At 31 December	**73,752**	72,472

16. Investments in group undertakings

	2016	2015
	£000	£000
At 1 January	**301,112**	301,112
Balance at 31 December	**301,112**	301,112

Name	Incorporated and domiciled	Principal activity	Percentage of shares held	Type of shares held
Highway Insurance Group Limited	England and Wales	General insurance holding company	100% directly held	Ordinary
Highway Insurance Company Limited	England and Wales	General insurance	100% indirectly held	Ordinary
Liverpool Victoria Repair Services Limited	England and Wales	Repair engineering services	100% directly held	Ordinary
Liverpool Victoria Assistance Services Limited	England and Wales	Road Rescue	100% directly held	Ordinary
Highway Group services Limited	England and Wales	Not Trading	100% directly held	Ordinary

All subsidiaries are at the registered address: County Gates, Bournemouth. BH1 2NF

Key assumptions used in the impairment testing of investments in group undertakings
The recoverable amount (based on value-in-use calculations) of the investments in group undertakings has been determined using cash flow predictions based on financial plans approved by Management covering a five-year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 9%. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place. Based on the above assumptions, the recoverable amount exceeded the carrying amount by £129.5m. The discount rate would need to be increased by 7.9% to reduce the recoverable surplus over the carrying amount to zero.

For the general insurance business the cash flows used in the financial plans are most sensitive to changes in the loss ratio. A 6.15% increase in the loss ratio would reduce the recoverable amount to equal the carrying amount. Key loss ratio assumptions are based on a combination of historic and current market place trends and Management judgement.

17. Prepayments and accrued income

	2016	2015 Restated
	£000	£000
Accrued interest from insurance contracts	**12,890**	12,477
Prepayments	**2,450**	1,487
Accrued Income	**9,645**	7,028
	24,985	20,992

Accrued income - debtors was mapped into accrued interest. 2015 is restated to remove this. For details see note 2.

18. Financial assets

	2016	2015
	£000	£000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	**270,116**	302,714
Debt and other fixed income securities	**745,071**	728,581
	1,015,187	1,031,295

19. 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.

	2016		
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**
	£000	**£000**	**£000**
Equity/index Derivatives	**120,785**	**-**	**(12,893)**
Interest rate swaps	**239,455**	**-**	**(2,351)**
	360,240	**-**	**(15,244)**

	2015		
	Contract/ notional amount	Fair value - asset	Fair value - liability
	£000	£000	£000
Equity/Index Derivatives	121,064	1,249	-
	121,064	1,249	-

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

As a result of the use of the above derivative instruments the Company's asset portfolio was protected from a significant fall in value of the UK equity market throughout 2016 and interest rate swaps were used to hedge our interest rate risk on the longer duration liabilities

20. Current tax asset / (liability)

	2016	2015
	£000	£000
At 1 January	**(1,495)**	(5,043)
Amounts recorded in the statement of comprehensive income	**5,907**	(10,996)
Payments made in respect of group relief	**4,126**	1,863
Income tax paid	**4,871**	12,681
At 31 December	**13,409**	(1,495)

21. Loans and other receivables

	2016	2015
	£000	£000
Amounts due from group undertakings	**41,854**	28,952
Other receivables	**6,774**	5,051
Cash collateral pledged	**15,700**	-
Reverse repurchase agreements	**133,332**	-
	197,660	34,003

22. Reinsurance assets

	2016	2015
	£000	£000
Reinsurers' share of provision for unearned premiums	**16,554**	12,280
Reinsurers' share of claims outstanding	**285,943**	225,941
	302,497	238,221

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

	2016	2015
	£000	£000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	**172,182**	153,066
- Due from agents, brokers and intermediaries	**46,825**	48,649
- Due from reinsurers	**12,709**	42
	231,716	201,757

24. Cash and cash equivalents

	2016	2015
	£000	£000
Bank balances	**9,362**	56,115
Short term bank deposits	**196,074**	397,224
Cash and cash equivalents per statement of financial position	**205,436**	453,339
Non-offsettable Bank overdrafts	**(8,782)**	(7,610)
Cash and cash equivalents per statement of cash flows	**196,654**	445,729

25. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2016			2015		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**1,060,327**	**(285,943)**	**774,384**	925,364	(225,941)	699,423
General insurance unearned premiums	**611,657**	**(16,554)**	**595,103**	575,149	(12,280)	562,869
	1,671,984	**(302,497)**	**1,369,487**	1,500,513	(238,221)	1,262,292

b) Movement in general insurance claims liabilities

	2016			2015		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**945,944**	**(199,275)**	**746,669**	870,405	(18,875)	851,530
IBNR	**(20,580)**	**(26,666)**	**(47,246)**	10,258	(17,282)	(7,024)
Balance at 1 January	**925,364**	**(225,941)**	**699,423**	880,663	(36,157)	844,506
Movement in claims incurred in prior accident years	**13,261**	**(119,611)**	**(106,350)**	(74,024)	(95,155)	(169,179)
Claims incurred in the current accident year	**917,701**	**(109,408)**	**808,293**	821,437	(96,727)	724,710
Claims paid during the year	**(795,999)**	**169,017**	**(626,982)**	(702,712)	2,098	(700,614)
	134,963	**(60,002)**	**74,961**	44,701	(189,784)	(145,083)
Balance at 31 December	**1,060,327**	**(285,943)**	**774,384**	925,364	(225,941)	699,423
OCR	**941,998**	**(52,409)**	**889,589**	945,944	(199,275)	746,669
IBNR	**118,329**	**(233,534)**	**(115,205)**	(20,580)	(26,666)	(47,246)
Balance at 31 December	**1,060,327**	**(285,943)**	**774,384**	925,364	(225,941)	699,423

c) Movement in general insurance unearned premiums

	2016			2015		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**575,149**	**(12,280)**	**562,869**	537,452	(12,982)	524,470
Premiums written in the year	**1,218,722**	**(269,258)**	**949,464**	1,142,066	(207,505)	934,561
Premiums earned during the year	**(1,182,214)**	**264,984**	**(917,230)**	(1,104,369)	208,207	(896,162)
Balance at 31 December	**611,657**	**(16,554)**	**595,103**	575,149	(12,280)	562,869

25. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for motor and household products administered on the main underwriting system are provided below.

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 generated each month-end by a system driven calculation. 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 for motor products are:

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

The claim types modelled for household products are:

- Accidental Damage (Buildings and Contents separately)
- Escape Of Water (Buildings and Contents separately)
- Fire (Buildings and Contents separately)
- Theft (Buildings and Contents separately)
- Weather (Buildings and Contents separately)
- Subsidence (Buildings only)
- Freezer Failure (Contents only)
- Personal Possessions
- Caravans

Unearned Premium Reserve ('UPR')

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

26. Provisions

	2016	2015
	£000	£000
Balance at 1 January	**13**	2,548
Releases	**(13)**	(2,535)
Balance at 31 December	**-**	13

27. Deferred tax liability

	2016	2015
	£000	£000
At 1 January	**869**	837
Current year charge	**61**	32
At 31 December	**930**	869

Analysis of deferred taxation temporary differences:

	£000	£000
Accelerated capital allowances	**(10)**	(12)
Intangible fixed assets	**940**	881
	930	869

Analysis of the deferred tax balance is as follows:

	£000	£000
Deferred tax liability expected to be recovered after more than 12 months	**932**	871
Deferred tax asset expected to be recovered within 12 months	**(2)**	(2)
Net deferred tax liability	**930**	869

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 2016.

The calculation of deferred tax balances at the year end also takes into account the reduction in the UK main corporation tax rate to 19%, substantively enacted on 26th October 2015 and effective from 1 April 2017, and a further reduction to 17%, substantively enacted on 6th September 2016 and effective from 1 April 2020.

28. Other financial liabilities

	2016	2015
	£000	£000
Cash Collateral Received	-	870
	-	870

29. Insurance payables

	2016	2015
	£000	£000
Due to reinsurers	21,211	184,603
Due to policy holders	1,248	3,299
Due to intermediaries	26	19
	22,485	187,921

30. Trade and other payables

	2016	2015
	£000	£000
Bank overdrafts	8,782	7,610
Amounts owed to group undertakings	984	-
Accruals and deferred income	14,985	13,605
Other taxes and social security costs	29,354	24,116
Other payables	1,728	952
	55,833	46,283

31. Share capital

	2016	2015
	£000	£000
Ordinary shares, allotted and fully paid		
344,907,680 (2015: 344,907,680) ordinary shares of £1 each	344,908	344,908

All authorised shares have been issued.

32. Capital reserve

	2016	2015
	£000	£000
Balance at 1 January	**140,564**	178,544
Dividends paid	**(3,400)**	(37,980)
Balance at 31 December	**137,164**	140,564

The Company paid the following interim dividends to LVGIG

	2016	2015
	£000	£000
Dividends paid	**3,400**	37,980
Total dividends paid for the year	**3,400**	37,980

The following dividends were declared and paid in the year:
• £3.4m was remitted to the parent company LVGIG (£0.01 per share). (2015: £nil)
• No ordinary share dividend paid in 2016. (2015 ordinary shares £38m - 11p per share)

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

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

33. Retained earnings

	2016	2015
	£000	£000
Balance at 1 January	**148,796**	94,338
(Loss) / Profit for the year	**(13,978)**	54,458
Balance at 31 December	**134,818**	148,796

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

	2016	2015 Restated
	£000	£000
(Loss) / Profit before tax	**(19,823)**	65,486
Investment income	**(41,272)**	(54,524)
Interest income received	**(30,275)**	(25,865)
Losses on financial assets recorded in the statement of comprehensive income	**10,969**	28,719
Non-cash items		
Expenses deferred during the year	**(1,280)**	453
Amortisation of intangible assets	**180**	180
Changes in working capital		
(Increase) / Decrease in loans and other receivables	**(163,657)**	15,298
(Increase) in reinsurance assets	**(64,276)**	(189,082)
(Increase) in insurance receivables	**(29,959)**	(28,843)
(Increase) in prepayments	**(3,580)**	(1,706)
Increase in insurance contract liabilities	**171,471**	82,398
(Decrease) in provisions	**(13)**	(2,535)
(Decrease) / Increase in collateral received	**(870)**	220
(Decrease) / Increase in insurance payables	**(165,436)**	173,690
Increase / (Decrease) in trade and other payables	**8,375**	(12,098)
Cash (used in)/generated from operating activities	**(329,446)**	51,791

35. Related party transactions

The Company enters into transactions with key management personnel in the normal course of business. 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:

	2016	2015
	£000	£000
Short-term employee benefits	**4,432**	6,769
Post-employment benefits	**63**	73
Other long-term benefits	**1,384**	35,858
	5,879	42,700

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

	2016	2015
	£000	£000
Cost of repairs from LV Repair Services Limited	**100,282**	63,151
	100,282	63,151

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

	2016	2015
	£000	£000
Management charge to the Company	**231,177**	223,322
	231,177	223,322

Dividends of £7m have been declared from the subsidiary LVRS to LVIC, before the financial statements were authorised for issue (April 2017) but not recognised as a distribution to owners during the period (2016).

LV Insurance Management Limited provides management services to the Company.

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

	2016	2015
	£000	£000
Dividend to Liverpool Victoria General Insurance Group Limited	**(3,400)**	(37,980)
	(3,400)	(37,980)

A capital contribution of £40m has been declared from the parent LVGIG to LVIC, post year end but before the financial statements were authorised for issue (February 2017) so not recognised during the period (2016).

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

	2016	2015
	£000	£000
Payable to the Company from group undertakings	**18,420**	6,502
Payable to the Company by Highway Insurance Group Limited	**22,450**	22,450
	40,870	28,952

36. Post Year End Events

Toward the end of 2016 the Ministry of Justice announced its intention to review the discount rate used to adjust personal injury damages awards. With effect from 20th March 2017 the discount rate dropped from 2.5% to minus 0.75%, and the result of this was to increase our 2016 claims incurred figure.
A £40m capital injection was declared from the parent company, and this was authorised for issue in Febuary 2017 but not recognised during the period (2016). The change in the Ogden discount rate had an adverse impact on the company, which required a £40 million capital injection. The remaining costs were absorbed as prior to the announcement the capital coverage ratio was above the targeted position.
The Directors of the subsidiary LVRS also declared a £7m dividend to be paid to the company and this was authorised for issue in February 2017 but not recognised during the period (2016).

37. Ultimate parent company

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

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

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

The smallest and largest company whose financial statements this company is consolidated into is Liverpool Victoria Friendly Society Limited.

The consolidated financial statements of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from:
The Company Secretary
County Gates
Bournemouth
BH1 2NF

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