COMPANY REGISTRATION NUMBER: 04332926

LIVERPOOL VICTORIA
GENERAL INSURANCE GROUP LIMITED
CONSOLIDATED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

AMENDED

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

P W Moore	
R A Rowney	
S Treloar	Appointed 5 May 2016
K O'Keeffe	Appointed 19 September 2016
P M Bunker	Resigned 1 January 2016
J B O'Roarke	Resigned 5 May 2016
M J Rogers	Resigned 28 July 2016
S V Castle	Resigned 19 September 2016
R A Warner	Resigned 1 October 2016
S R Haynes	Resigned 1 October 2016
J M Laidlaw	Resigned 1 October 2016
S C A Fernandes	Resigned 1 October 2016
M P Crane	Appointed 1 January 2016 and resigned 1 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

LIVERPOOL VICTORIA GENERAL INSURANCE GROUP LIMITED CONSOLIDATED (COMPANY REGISTRATION NUMBER: 04332926)

STRATEGIC REPORT

1. Results and dividends
The loss on ordinary activities for the year after taxation is £21.9m (2015: 38.6m profit) as set out on page 13. The Directors have declared and paid preference share dividends of £6.8m in the current year (2015: preference share dividends £6.8m, ordinary share dividends £30.0m).

2. Principal activities
Liverpool Victoria General Insurance Group Limited ('Company') is the holding company for a group of companies ('Group'), the principal purpose of which is to carry on 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 Group also underwrites Road Rescue, Pet and Travel Insurance.

3. Business review and developments

(a) Strategy
In line with the rest of LV=, the Group has introduced a new strategy, based on a core purpose of 'Live Confident' and three strategic thrusts:

1. Build a business that is sustainably Lean & strong so that the Group can achieve its goals over the long-term whilst continuing to grow value.
2. Deliver Green Heart Experiences for customers and colleagues, designing and delivering solutions that prevent as well as fix – and inspire total trust.
3. Harness the latest technologies, evolve how the Group operates, and bring in the new talent needed to ensure that the Group leads the industry today and into the future. LV= has termed this LV=3.0.

In 2016 a new confident ambition was set to transform from a top-five UK car insurer to a top-five general insurer. The Group intends to achieve this through customer centricity, maintaining its customer satisfaction and retention rates and growth through outperforming in the motor market and driving strong and profitable growth in the commercial market.

The Group aims to deliver attractive and consistent returns to the members of Liverpool Victoria Friendly Society Limited ('LVFS').

(b) Key performance indicators

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

The Group uses many detailed KPIs to monitor performance. The main high level ones are as follows:

	2016 £m	2015 £m
Underwriting result	**70.1**	43.7
Investment return	**42.6**	28.6
Operating profit – pre Ogden	**112.7**	72.3
Reserve increase due to Ogden rate changes (note 1)	**(138.5)**	-
Operating (loss)/profit – post Ogden	**(25.8)**	72.3
Centrally managed costs	**(2.0)**	(19.4)
Finance costs	**(0.4)**	(0.3)
Amortisation of acquired intangibles	**(1.8)**	(1.8)
(Loss)/profit before tax	**(30.0)**	50.8

3. Business review and developments (continued)

(b) Key performance indicators (continued)

	2016	2015
Direct operating profit – pre Ogden	**£93.0m**	£91.1m
Broker operating profit/(loss) – pre Ogden	**£25.8m**	(£18.8m)
Operating profit ceded to reinsurers – pre Ogden*	**(£6.1m)**	-
Loss ratio	**69.7% pre Ogden** **81.7% post Ogden**	66.3%
Expense ratio	**24.4% pre Ogden** **24.1% post Ogden**	29.8%
Combined ratio	**94.1% pre Ogden** **105.8% post Ogden**	96.1%
Investment performance**	**2.1%**	1.3%
Direct premium income	**£912.7m**	£837.3m
Broker premium income	**£668.7m**	£634.6m
Pre-tax return on capital – pre Ogden	**14.2%**	9.5%
Direct in-force policies	**3.6m**	3.3m
Broker in-force policies	**1.4m**	1.4m

*In the latter part of 2015 the Group entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its booked reserves as at 31 December 2015. From 1 January 2016 the Group has been part of a 20% Quota Share agreement.
**Quoted gross of expenses

Note 1 – Ogden
On 27 February 2017, the Lord Chancellor announced a reduction in the Ogden discount rate from 2.5% to minus 0.75% from 20 March 2017. Subsequently, a consultation has been launched across the industry on 30 March 2017 to consider options for reform. The Ogden discount rate is used to calculate lump sum settlements of bodily injury claims, including awards for recurring costs such as loss of earnings and ongoing medical care. The Group has previously held a provision in claims reserves in line with the previous actual rate of 2.5%. As a result of the announcement, the Group has increased this provision for the estimated impact of moving to a minus 0.75% Ogden discount rate for all business earned up to 31 December 2016. The overall impact of this rate change on 2016 operating profit was £138.5m. Reflecting this charge as a separate item in the operating profit statement, and key ratios, recognises the magnitude of the change in policy and the potential for future revisions to the discount rate to cause further volatility in the Group's results.

(c) Results and performance
Operating loss for the Group in 2016, including the impact of the Ogden rate change was £25.8m (2015: £72.3m profit).

Before the impact of the Ogden rate change, the Group operating profit of £112.7m was up 56% compared to 2015 reflecting an increase in investment return and a strong increase in the underwriting result. Underlying performance showed good progress, with gross written premiums up 7% compared to 2015. In large part this was due to the growth in policies, but also because prices have gone up across the whole market in recognition of inflation in claims costs in recent years.

While the Group's underlying claims costs were impacted by the increased costs of putting right damage to vehicles, mainly third parties, these were largely offset by better outcomes on claims from prior years. As expected, at £63.7m the pre-Ogden releases from prior year claims reserves were not as large as those in 2015 (£92.8m). Despite this, the Group's pre-Ogden combined ratio of 94.1% is lower than 2015's 96.1%. The reduction in the Ogden rate increased the Group's 2016 claims incurred figure by £138.5m.

In response to the competitive market conditions the Group has maintained strong cost disciplines through controlling acquisition costs and operating expenses during the year. The improvement in the pre-Ogden expense ratio at 24.4% (2015: 29.8%) has been distorted by the different impacts of the 2015 Loss Portfolio Transfer agreement and the 2016 Quota Share agreement on the calculation. Underlying expenses in 2016 have essentially been maintained at the same level as 2015.

3. Business review and developments (continued)

(c) Results and performance (continued)

Investment returns increased to £42.6m (2015: £28.6m). The continued low underlying interest rate market resulted in low investment income, but this was offset by improved capital returns in equities, reflecting the overall increase in UK and overseas markets, and debt securities, as gilt yields decreased.

Direct
The Group's direct business grew in LV= branded car and home portfolios due to strong sales and market leading renewal retention. This growth was driven by the focus on providing great value products, underpinned by great customer service. Overall policies increased by 9% to 3.6 million, with car and breakdown policies passing their 2 million and 1 million milestones respectively. Together with strong average price growth, overall premiums grew by 9% from £837.3m in 2015 to a new record high of £912.7m. The current year loss ratio, before the impact of the Ogden rate change improved from 74.2% to 71.8%.

To support sustainable profitable growth, and respond to evolving customer needs and market developments, the Group is investing heavily in its Pioneer Programme. This will replace the Group's legacy policy systems and transform the car and home distribution capability. The Group will be able to provide a better customer experience which reflects how people want to get in touch with LV=, and improved proposition development and pricing. Thanks to great teamwork, management focus and commitment, the programme remains on-track and within budget to roll-out the new propositions and capability in 2017.

Broker
2016 saw a strong turnaround in the profits of the broker division pre-Ogden from a loss of £18.8m last year to a profit of £25.8m this year. This was a achieved through disciplined underwriting, and a forensic review of all business lines. Broker division policies remained at 1.4 million and premiums grew by 5% from £634.6m in 2015 to £668.7m. The combined ratio, before the impact of the Ogden rate change, improved to 99.3% compared to 105.5% in 2015. Commercial has focused on regional brokers and achieved 9% growth. Personal lines has concentrated on areas of the market that complement the direct division.

Unfortunately, the Group has not been able to make sustainable profits in the highly competitive broker home market, so this product has been withdrawn from April 2017. The Group remains fully committed to its broker personal motor and commercial business, and to home insurance products sold directly to customers.

The Group has continued to deliver a strong service proposition to its brokers and has achieved Chartered Insurer status for its underwriting teams during the year which recognises the professional skills and knowledge of its people.

Looking ahead
The Group is strongly positioned in all its markets with excellent customer service, exciting digital offerings in development and a very strong brand franchise. There has been a strong improvement in underwriting profits in 2016 which is expected to continue in 2017, subject to the usual caveats about bad weather and large losses, and the negative impact of the Ogden discount rate change on the Group's unearned premiums. The Group has re-priced its motor business to take account of the higher expected claims costs going forwards. Investment in technology to improve the customer experience and eliminate waste should generate a productivity dividend and lead to future improvements in the expense ratio.

The quality and strength of the franchise means the Group is looking forward to the next couple of years with a clear plan and confidence that it can grow and succeed in its chosen markets.

3. Business review and developments (continued)

(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 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 Group 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 Group 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 Group conducts its business, and is therefore monitored closely. 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 Group 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 Group 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 Group 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 Group used the Standard Formula to calculate its capital requirements throughout 2016, and expects to move to an Internal Model following PRA review and approval.

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 Group 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 Group.

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

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 minus 0.75% which had an adverse impact of £138.5m on the operating profit of the Group. This impact was recognised in the 2016 results. However, there is a risk that this change could also impact underwriting profits going forwards due to the increased uncertainty arising in insurance markets following this decision.

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

e) Post year end events

The change in the Ogden discount rate had a £138.5m adverse impact on the Group's operating profit and a £100m adverse impact on the Group's Solvency II capital surplus. To support the capital position of Liverpool Victoria Insurance Company Limited ('LVIC'), a regulated subsidiary of the Group, the Company purchased 40 million ordinary shares of £1 each in LVIC at par on 28 February 2017. This capital injection was not recognised in the 2016 results. In order to fund this capital injection the Company issued 40 million ordinary shares of £1 each at par to LV Capital PLC, its parent company, on 28 February 2017.

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

Approved by the Board of Directors and signed on behalf of the Board

R Rowney
Director

08 June 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; and
- Post year end 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 LV Capital PLC. The ultimate parent company is Liverpool Victoria Friendly Society ('LVFS'), a friendly society incorporated under the Friendly Societies Act 1992.

3. Employees
The Group 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 Group and its directors. It is available for inspection at the registered office of the Group, 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 (EU). 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 Group and the Company and of the profit or loss of the Group and the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Group and 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 Group and 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.

7. Amendment to original filed accounts
These accounts replace the original accounts filed in April 2017 and are now the statutory accounts for the period ending 31 December 2016. The accounts have been amended in order to present the results of the Group on a consolidated basis as well as presenting information about the Company as an individual undertaking.

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

R S Small
Company Secretary
08 June 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIVERPOOL VICTORIA GENERAL INSURANCE GROUP LIMITED

Report on the financial statements

Our opinion

In our opinion, Liverpool Victoria General Insurance Group Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's loss, the company's profit and the group's and the company's 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 consolidated and company statements of financial position as at 31 December 2016;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows 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.

Opinion on other matter 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 group, the company and their 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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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 group's and 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
08 June 2017

LIVERPOOL VICTORIA GENERAL INSURANCE GROUP LIMITED CONSOLIDATED

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£000**	£000	**£000**	£000
Gross earned premiums	5	**1,530,383**	1,419,834	**-**	-
Premiums ceded to reinsurers	5	**(340,926)**	(284,409)	**-**	-
Net earned premiums	5	**1,189,457**	1,135,425	**-**	-
Investment income	6	**60,585**	74,878	**3,400**	37,980
Net losses on investments	7	**(13,685)**	(42,947)	**-**	-
Other income	8	**37,605**	35,456	**-**	-
Total income		**1,273,962**	1,202,812	**3,400**	37,980
Insurance claims and loss adjustment expenses	9	**(1,274,691)**	(1,017,802)	**-**	-
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**302,923**	265,330	**-**	-
Net insurance claims	9	**(971,768)**	(752,472)	**-**	-
Gross operating and administrative expenses	10	**(403,848)**	(399,229)	**-**	(19,442)
Expenses recoverable from reinsurers	10	**72,033**	-	**-**	-
Net operating and administrative expenses	10	**(331,815)**	(399,229)	**-**	(19,442)
Finance costs		**(353)**	(319)	**-**	-
Total claims and expenses		**(1,303,936)**	(1,152,020)	**-**	(19,442)
(Loss)/profit before tax		**(29,974)**	50,792	**3,400**	18,538
Income tax credit/(expense)	13	**8,100**	(12,178)	**-**	-
(Loss)/profit for the year attributable to owners of the parent		**(21,874)**	38,614	**3,400**	18,538
Total comprehensive income for the year		**(21,874)**	38,614	**3,400**	18,538

All balances relate to continuing business.

The notes on pages 17 to 65 are an integral part of the financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

		Attributable to equity holder of the Group				
		Share capital	**Preference shares**	**Retained earnings**	**Capital reserve**	**Total equity**
	Note	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2016		**401,312**	**170,000**	**143,487**	**-**	**714,799**
Reclassification of share capital	32	**3,500**	**-**	**-**	**-**	**3,500**
Dividends paid (preference shares)	35	**-**	**-**	**(6,800)**		**(6,800)**
Total comprehensive income for the year	34	**-**	**-**	**(21,874)**	**-**	**(21,874)**
Balance at 31 December 2016		**404,812**	**170,000**	**114,813**	**-**	**689,625**

		Attributable to equity holder of the Group				
		Share capital	Preference shares	Retained earnings	Capital reserve	Total equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2015		400,312	170,000	116,473	25,200	711,985
Reclassification of share capital	32	1,000	-	-	-	1,000
Dividends paid (preference shares)	35	-	-	-	(6,800)	(6,800)
Dividends paid (ordinary shares)	35	-	-	(11,600)	(18,400)	(30,000)
Total comprehensive income for the year	34	-	-	38,614	-	38,614
Balance at 31 December 2015		401,312	170,000	143,487	-	714,799

		Attributable to equity holder of the Company				
		Share capital	**Preference shares**	**Retained earnings**	**Capital reserve**	**Total equity**
	Note	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2016		**401,312**	**170,000**	**68,057**	**-**	**639,369**
Reclassification of share capital	32	**3,500**	**-**	**-**	**-**	**3,500**
Dividends paid (preference shares)	35	**-**	**-**	**(6,800)**		**(6,800)**
Total comprehensive income for the year	34	**-**	**-**	**3,400**	**-**	**3,400**
Balance at 31 December 2016		**404,812**	**170,000**	**64,657**	**-**	**639,469**

		Attributable to equity holder of the Company				
		Share capital	Preference shares	Retained earnings	Capital reserve	Total equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2015		400,312	170,000	61,119	25,200	656,631
Reclassification of share capital	32	1,000	-	-	-	1,000
Dividends paid (preference shares)	35	-	-	-	(6,800)	(6,800)
Dividends paid (ordinary shares)	35	-	-	(11,600)	(18,400)	(30,000)
Total comprehensive income for the year	34	-	-	18,538	-	18,538
Balance at 31 December 2015		401,312	170,000	68,057	-	639,369

The notes on pages 17 to 65 are an integral part of the financial statements.

LIVERPOOL VICTORIA GENERAL INSURANCE GROUP LIMITED CONSOLIDATED

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£000**	£000	**£000**	£000
Assets					
Intangible assets	14	**237,443**	209,696	-	-
Property and equipment	15	**8,306**	6,475	-	-
Investments in group undertakings	16	-	-	**678,913**	678,913
Current tax asset	27	**12,811**	-	-	-
Deferred tax asset	28	**3,506**	-	-	-
Prepayments and accrued income	17	**35,501**	30,282	-	-
Deferred acquisition costs	18	**101,732**	98,906	-	-
Financial assets at fair value through income	19	**1,570,108**	1,535,214	-	3,400
Derivative financial instruments	20	-	1,859	-	-
Loans and other receivables	21	**230,950**	8,217	-	-
Reinsurance assets	22,25	**489,251**	398,430	-	-
Insurance receivables	23	**275,763**	237,525	-	-
Cash and cash equivalents	24	**310,447**	685,468	**9**	9
Total assets		**3,275,818**	3,212,072	**678,922**	682,322
Liabilities					
Insurance contract liabilities	25	**2,353,301**	2,093,212	-	-
Provisions	26	-	190	-	-
Current tax liability	27	-	802	-	-
Deferred tax liability	28	-	223	-	-
Derivative financial instruments	20	**22,644**	23	-	-
Other financial liabilities	29	**10,243**	10,394	-	-
Insurance payables	30	**29,656**	256,216	-	-
Trade and other payables	31	**170,349**	136,213	**39,453**	42,953
Total liabilities		**2,586,193**	2,497,273	**39,453**	42,953
Equity					
Share capital	32	**404,812**	401,312	**404,812**	401,312
Preference shares	33	**170,000**	170,000	**170,000**	170,000
Retained earnings	34	**114,813**	143,487	**64,657**	68,057
Total equity		**689,625**	714,799	**639,469**	639,369
Total liabilities and equity		**3,275,818**	3,212,072	**678,922**	682,322

The notes on pages 17 to 65 are an integral part of the financial statements.

These financial statements on pages 13 to 65 were approved by the Board of Directors on 08 June 2017.

Signed on behalf of the Board of Directors

R. Rowney
Director

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£000**	£000	**£000**	£000
Cash and cash equivalents at 1 January	24	**675,868**	310,130	**9**	9
Cash flows arising from:					
Operating activities					
Cash (used in)/generated from operating activities	36	**(392,912)**	77,558	**-**	11
Net (increase)/decrease in investments held at fair value through income		**(24,099)**	245,519	**3,400**	(1,180)
Dividend income received		**11,802**	10,092	**3,400**	37,980
Interest income received		**77,933**	98,413	**-**	-
Finance costs		**(353)**	(319)	**-**	-
Group relief paid	27	**(5,416)**	(1,990)	**-**	(11)
Income tax paid	27	**(3,826)**	(17,782)	**-**	-
Net cash flows (used in)/generated from operating activities		**(336,871)**	411,491	**6,800**	36,800
Investing activities					
Purchase of property and equipment		**(3,179)**	(301)	**-**	-
Purchase of capitalised intangible assets		**(32,260)**	(8,652)	**-**	-
Net cash flows used in investing activities		**(35,439)**	(8,953)	**-**	-
Financing activities					
Dividends paid	35	**(6,800)**	(36,800)	**(6,800)**	(36,800)
Net cash flows used in financing activities		**(6,800)**	(36,800)	**(6,800)**	(36,800)
Net (decrease)/increase in cash and cash equivalents		**(379,110)**	365,738	**-**	-
Cash and cash equivalents at 31 December	24	**296,758**	675,868	**9**	9

The notes on pages 17 to 65 are an integral part of the financial statements.

1. General information

The Company is a company limited by shares domiciled and incorporated in the United Kingdom. The companies within the Group underwrite general insurance risks, including motor and household risks. All contracts of insurance are written in the United Kingdom, Republic of Ireland or the Channel Islands.

2. Accounting policies

Basis of presentation

The Group's financial statements consolidate the results of the Company and its subsidiary companies. The Group's and the Company's financial statements conform to 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.

In accordance with IFRS 4 on Insurance Contracts, the Group has applied existing accounting practices for insurance contracts modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in the Claims and insurance contract liabilities accounting policy.

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. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise noted, the consolidated financial statements are presented in thousands of pounds sterling, which is the Group's presentation currency.

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

The principal accounting policies adopted are listed on pages 18 to 23. These policies have been consistently applied to all years presented, unless otherwise stated.

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

2. Accounting policies (continued)

Basis of consolidation
Subsidiaries are all entities over which the Group (directly or indirectly) has control. The Group controls an entity when the Group has all of the following:

- power over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns from its involvement with the entity; and
- the ability to affect those returns through the power over the entity.

The assessment of control is based on the consideration of all the facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group using uniform accounting policies consistently applied across the Group. They are excluded from consolidation from the date on which control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Accordingly, the cost of an acquisition is measured as the fair value of the cash or other assets given, equity instruments issued and liabilities incurred or assumed at the date control passes. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income for the period.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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. Interest receivable from investments at fair value is accounted for on an accruals 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. A reversal is made of previously recognised gains or losses in respect of disposals made during the year.

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

2. Accounting policies (continued)

Financial assets at fair value through income
All investments of the Group classified as fair value are designated as fair value through income at inception. Financial assets designated at fair value through income at inception are part of a group of financial assets that are managed and their performance evaluated and reported to the board on a fair value basis in accordance with the Group's documented investment strategy.

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

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

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.

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.

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.

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

2. Accounting policies (continued)

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

a) Cash collateral
Cash collateral received, which is not legally segregated from the Group, 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 Group, 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 Group is not in default is not derecognised from the Statement of Financial Position and remains within the appropriate asset classification.

Derecognition
A financial asset is derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset and has:
    - transferred the risks and rewards of the asset; or
    - transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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.

2. Accounting policies (continued)

Deferred acquisition costs

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

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

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

Deferred acquisition costs are all due within one year for both 2015 and 2016. Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses.

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.

Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group 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 Group will not recover outstanding amounts under the contract, such losses being recorded immediately in the Statement of Comprehensive Income.

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.

2. Accounting policies (continued)

IT Software
IAS 38 Intangible Assets requires the capitalisation of certain expenditure relating to software costs. Software costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Software costs capitalised as intangible assets include computer application software licences and internally developed software. Internally developed software is capitalised as an intangible asset and amortised over its estimated useful life when it is either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable. Software intangibles are amortised using the straight line method over their useful lives (three to six years). The amortisation periods used are reviewed annually.

Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Property and equipment
Operational property and equipment is held at accumulated cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Both property and equipment are depreciated to their estimated residual values on a straight line basis over their estimated useful lives. The periods used are as follows:

Freehold buildings and finance lease property*	10 to 50 years
Leasehold property enhancements*	10 years or lease term if shorter
Fixtures and fittings	3 to 10 years
IT equipment	3 to 6 years

Assets are written down to their recoverable amount where this is less than the carrying value.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

*These are properties used by the Group for operational purposes and are not investment properties.

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.

Impairment of Non-financial assets
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Accounting policies (continued)

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

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

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.

Operating lease payments
The costs in respect of operating leases are charged on a straight line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent free periods) is recognised as deferred income and is released over the life of the lease.

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

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

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

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

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

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 Group
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 Group 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 Group, except the following:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling. There is a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018, or at the latest 1 January 2021 where application of the standard is deferred in accordance with the above Amendment to IFRS 4 'Insurance contracts'. The Company will adopt IFRS 9 from 1 January 2018, however the consolidated Group will defer IFRS 9. The Group will assess the impact on the accounting for both financial instruments in accordance with IFRS 9 and insurance contracts following the publication of the Insurance Contracts standard IFRS 17.

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 Group 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. The Company is not an eligible insurer and will adopt IFRS 9 from 1 January 2018.

IFRS 15 'Revenue from contracts with customers' provides a principles-based approach for revenue recognition that is underpinned by the achievement of performance obligations. It replaces IAS 18 'Revenue' and is effective from 1 January 2018. The Group is currently assessing the impact of this new standard; the standard does not apply to business classified as insurance contracts, the impact is therefore expected to be confined primarily to fee and commission income.

2. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES (continued)

(ii) New standards and interpretations not yet adopted (continued)

IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces IAS 17 'Leases' and is effective from 1 January 2019. Information disclosed by lessees and lessors will enable users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard has been reviewed and it is expected that leases currently classified as operating leases will require recognition on the Statement of Financial Position at the present value of minimum lease payments. Assets and liabilities will be increased; however the net Statement of Financial Position and Statement of Comprehensive Income impact is expected to be immaterial.

IFRS 17 'Insurance Contracts' was issued on 18 May 2017 and sets out the principles for the recognition, measurement, presentation and disclosure of Insurance contracts. It replaces IFRS 4 'Insurance contracts' and is effective from 1 January 2021. The Group is yet to fully assess the final standard but as an insurance group the standard is likely to have a material impact on the presentation and disclosures within the financial statements when it is adopted.

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

3. Significant accounting judgements, estimates and assumptions
In applying the Group's accounting policies, the Directors have made the following judgements, estimations and assumptions which have the most significant effect on the financial statements.

Impairment testing of goodwill and other intangible assets
The Group determines whether goodwill and other intangible assets are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which the goodwill is allocated. The LVFS group has allocated the goodwill to a single cash generating unit, general insurance, based on the key operating segments of the Group.

Details of the key assumptions used in the estimation of the recoverable amounts and the carrying value at the reporting date are contained in note 14.

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 Group'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 Group. 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 the Directors believe 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 Group 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 Group'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:

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

Valuation of general insurance contract liabilities (continued)

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

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group 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 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate from 2.5% to 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 adverse pre-tax profit impact of £138.5m (IFRS basis post LPT/QS) for the Group and has significantly impacted other insurers in the market. The change in the Ogden discount rate is expected to make lump sum settlements more attractive to claimants than PPO settlements, without reducing the cost of a PPO claim. Overall PPO claims reserves should reduce due to lower propensity but these claims would be replaced by more expensive lump sum settlements.

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 Group and across the wider LVFS group. The Group has a Reserving Committee with the purpose of reviewing reserves, challenging the assumptions made by the Directors 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 Group's best estimate is assessed.

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

Classification of the Group's contracts with reinsurers as reinsurance contracts
Management have applied judgement in determining whether contracts entered into with reinsurers transfer significant insurance risk and can therefore be accounted for as reinsurance contracts. In making this judgement management review all terms and conditions of each contract and obtain the opinion of an independent expert where necessary.
In order for significant insurance risk to be transferred the following conditions must both be met:

- It is reasonably possible that the reinsurer may realise a significant loss from the contract; and
- There is a reasonable possibility of a significant range of outcomes from the contract.

In 2015 LV= entered into a loss portfolio transfer agreement to reinsure 20% of the Group's general insurance reserves as at 31 December 2015 and in 2016 LV= entered into a quota share agreement to reinsure 20% of the Group's general insurance underwriting profits from 1 January 2016 for a period of 3 years. Management judged that significant insurance risk has been transferred in both these contracts following a review of the terms and conditions of the contracts.

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 Group maintains a capital structure which consists of a combination of equity and borrowings and a limited capital drawdown facility available on call from LVFS, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Group retains capital to meet four key objectives:

(i) To ensure the Group's strategy can be implemented and is financially sustainable;
(ii) To ensure the Group'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 Group; and
(iv) To comply with capital requirements imposed by its UK regulator, the Prudential Regulation Authority ('PRA').

At least annually these objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Group. In the event that sufficient capital is not available plans would be developed either to raise additional capital through, for example, issuing shares or 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 Group 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). The primary driver of both transactions was efficient capital management.

Since 1 January 2016 the regulated insurance companies within the Group have calculated and reported their capital position under the Solvency II regime. There are two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The regulated insurance companies within the Group used the Standard Formula to calculate their capital requirements throughout 2016, but expect to move to an Internal Model following PRA review and approval.

The Group itself is not regulated but the Group contains regulated entities. The Group disclosed Solvency II Eligible own funds of £460.1m (2015: £510.3m) being the Eligible own funds of Liverpool Victoria Insurance Company Limited, including its subsidiary Highway Insurance Company Limited, as stated in the 2016 year-end Solvency II return.

The Group 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 Group 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.

a) Insurance risk
The Group's insurance activities are primarily concerned with the pricing, accepting and management of risks from its policyholders. In accepting risks the Group commits to paying claims and therefore these risks must be understood. The Group 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 Group faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Group'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 Group is contractually committed may prove to be insufficient to absorb the cost of the claims which they will generate and any related deferred acquisition cost. 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 Group 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 Group 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 Group has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Group'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 Group has entered into reinsurance contracts which provide protection against these liabilities.

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

a) Insurance risk (continued)
In addition to the reinsurance contract described on the previous page, 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 Group's exposure to general insurance concentration risk.
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	**1,283,941**	**(407,737)**	**876,204**	1,066,964	(325,838)	741,126
Household	**59,477**	**(10,530)**	**48,947**	72,205	(14,441)	57,764
Travel	**2,090**	**(296)**	**1,794**	1,783	(356)	1,427
Commercial	**209,282**	**(53,885)**	**155,397**	206,295	(44,242)	162,053
Other	**7,163**	**(38)**	**7,125**	5,675	(1,135)	4,540
	1,561,953	**(472,486)**	**1,089,467**	1,352,922	(386,012)	966,910

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

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

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

The 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% p.a. 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 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 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to minus 0.75% p.a. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term. The impact of this Ogden change has led to an increase in bodily injury reserves of £138.5m for the Group 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 PPO settlement, without reducing the cost of a PPO claim. Overall PPO claims reserves should reduce due to lower propensity but these claims would be replaced by more expensive lump sum settlements.

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

a) Insurance risk (continued)

The table below provides a sensitivity analysis of the potential impact of a change in the discount rate used to value PPOs and a change in the Ogden discount rate, with all other assumptions left unchanged.

	Increase / (decrease) in Profit before tax		Increase / (decrease) in total equity at 31 December	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
PPOs				
Impact of a 1% increase in the discount rate used to value PPOs	**8.0**	19.1	**6.4**	15.3
Impact of a 1% reduction in the discount rate used to value PPOs	**(11.0)**	(29.2)	**(8.8)**	(23.4)
Ogden discount rate				
Impact of an increase in the Ogden discount rate of 1% p.a.	**58.0**	n/a	**46.4**	n/a
Impact of an decrease in the Ogden discount rate of 1% p.a.	**(79.0)**	n/a	**(63.2)**	n/a

1. 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% p.a.
2. The selection of these sensitivities should not be interpreted as a prediction.

The tables on the following page 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 Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

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

a) Insurance risk (continued)

Analysis of claims development – gross of reinsurance

Accident year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Initial estimate of gross provision	560.1	539.6	606.9	771.3	906.4	1,086.1	1,074.7	1,049.2	1,046.7	1,146.4	
One year later	512.6	540.2	589.2	823.0	912.5	1,039.3	1,013.1	998.1	1,097.4		
Two years later	489.4	500.2	589.2	838.5	899.3	1,015.2	997.2	980.1			
Three years later	486.0	490.0	587.9	832.5	892.1	989.6	984.2				
Four years later	487.6	491.0	603.3	822.9	889.1	978.3					
Five years later	492.4	487.2	598.6	827.2	873.1						
Six years later	494.7	480.6	598.3	828.6							
Seven years later	495.4	480.1	576.9								
Eight years later	497.3	454.6									
Nine years later	493.2										
Current estimate of cumulative claims	493.2	454.6	576.9	828.6	873.1	978.3	984.2	980.1	1,097.4	1,146.4	**8,412.8**
Cumulative payments to date	(474.2)	(451.3)	(570.7)	(773.1)	(842.9)	(910.2)	(820.3)	(765.1)	(756.3)	(551.6)	**(6,915.7)**
Liability for 2007 to 2016 accident years	19.0	3.3	6.2	55.5	30.2	68.1	163.9	215.0	341.1	594.8	**1,497.1**
Liability in respect of prior accident years											**42.4**
Claims handling provision											**17.5**
Unexpired risk provision											**5.0**
Provision as at 31 December 2016											**1,562.0**

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

a) Insurance risk (continued)

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	505.8	506.8	584.0	762.0	897.2	1,060.6	1,055.0	1,036.5	913.7	1,000.8	
One year later	462.9	482.9	578.0	802.9	897.1	1,021.9	992.7	931.8	1,005.5		
Two years later	440.1	463.9	564.7	819.0	891.1	1,000.6	940.7	921.4			
Three years later	441.1	456.7	562.1	805.4	885.5	962.0	934.8				
Four years later	430.1	457.6	576.9	795.9	872.0	952.8					
Five years later	431.2	453.5	570.1	794.9	860.4						
Six years later	431.0	451.8	566.2	787.5							
Seven years later	431.1	450.0	560.0								
Eight years later	429.3	451.0									
Nine years later	468.7										
Current estimate of cumulative claims	468.7	451.0	560.0	787.5	860.4	952.8	934.8	921.4	1,005.5	1,000.8	**7,942.9**
Cumulative payments to date	(467.2)	(449.5)	(557.1)	(767.7)	(841.4)	(910.2)	(819.0)	(765.1)	(756.3)	(551.6)	**(6,885.1)**
Liability for 2007 to 2016 accident years	1.5	1.5	2.9	19.8	19.0	42.6	115.8	156.3	249.2	449.2	**1,057.8**
Liability in respect of prior accident years											**9.5**
Claims handling provision											**17.2**
Unexpired risk provision											**5.0**
Provision as at 31 December 2016											**1,089.5**

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

b) Financial risk

i) 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 Group 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 Group'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 Group'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 Group 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 Group 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 Group's portfolio of corporate bonds and vice-versa.

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

Equity risk
The Group'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 group or industry are limited by parameters established by the Investment Committee.

The Group also make use of derivatives to manage this risk.

Currency risk
The Group operates predominantly within the UK, although it has some exposure to foreign currencies through its investment portfolio and financial liabilities. The main currency exposures are the Euro and the US Dollar.

The Group's general policy is to run no foreign exchange risk. However the Group's Investment Managers may from time to time run a small exposure having agreed any such exposure with the Investment Committee. An open Euro position is maintained to hedge the subordinated note (see Note 29) and other minor insurance liabilities. The Group purchases forward foreign exchange contracts to hedge the exposure to foreign exchange movements.

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

b) Financial risk (continued)

i) Market risk (continued)

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

As at 31 December 2016	**USD £000**	**Euro £000**	**Total £000**
Receivables arising out of insurance operations			
Reinsurers' share of insurance contract liabilities	**-**	**10,592**	**10,592**
Cash and cash equivalents	**876**	**11,908**	**12,784**
Insurance contracts	**-**	**(12,171)**	**(12,171)**
Financial liabilities			
- Other	**-**	**(10,243)**	**(10,243)**
- Derivative financial instruments - liabilities	**(1,239)**	**-**	**(1,239)**
Total exposure	**(363)**	**86**	**(277)**

As at 31 December 2015	USD £000	Euro £000	Total £000
Financial assets at fair value through income			
- Shares, other variable yield securities and units in unit trusts	185	-	185
- Shares, other variable yield securities and units in unit trusts - impairment	185	-	185
- Debt and other fixed income securities	-	528	528
Receivables arising out of insurance operations			
Reinsurers' share of insurance contract liabilities	-	8,994	8,994
Cash and cash equivalents	488	11,795	12,283
Insurance contracts	-	(12,198)	(12,198)
Financial liabilities			
- Other	-	(8,844)	(8,844)
- Derivative financial instruments - liabilities	(862)	-	(862)
Total exposure	(4)	275	271

The sensitivity of investment assets to a 10% increase/decrease in US Dollar and Euro exchange rates net of derivatives is £36,300 (2015: £400) and £8,600 (2015: £27,500) respectively. In determining the percentage rates to use in this sensitivity analysis the movements in the actual market rates of Euro and US Dollars during 2016 were taken into account. The above table incorporates all material currency risk to Profit before tax. Therefore, a 10% increase/decrease across all currencies could impact Profit before tax by up to £44,900 (2015: £27,900).

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

b) Financial Risk (continued)

i) Market risk (continued)

Sensitivity analysis to market risks
The table below shows the results of sensitivity testing on the Group'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 Group's financial assets and liabilities. The sensitivities in the table can be impacted by the use of derivative financial instruments, which are detailed in Note 20.

	Impact on profit before tax 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 (note 1)	**(43,699)**	**(34,959)**	-	-
+ 50 basis points shift in yield curve (note 1)	**-**	**-**	(8,483)	(6,786)
- 50 basis points shift in yield curve	**25,247**	**20,197**	8,609	6,887
Credit spread risk				
100 basis points widening in all credit spreads	**(15,696)**	**(12,557)**	(16,371)	(13,097)
100 basis points tightening in all credit spreads (note 2)	**-**	**-**	15,902	12,721
50 basis points tightening in all credit spreads (note 2)	**8,026**	**6,422**	-	-
Equity risk (including derivatives)				
20% increase in equity markets	**1,443**	**1,155**	17,248	13,799
20% decrease in equity markets	**(27,080)**	**(21,664)**	(21,560)	(17,248)

note 1: Interest rate risk sensitivity was calculated on a +100 basis point shift in the yield curve for 2016. For 2015 this was calculated on a +50 basis point shift.

note 2: Credit spread risk sensitivity was calculated on a 50 basis point tightening in credit spreads for 2016. For 2015 this was calculated on a 100 basis point tightening.

ii) 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 Group. The key areas of exposure to credit risk for the Group are in relation to its investment portfolio and reinsurance programme and amounts due from insurance intermediaries and policyholders.

The Group 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 the Directors do not expect any counterparty to fail to meet its obligations. Counterparty exposure is subject to regular review.

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

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

b) Financial risk (continued)

ii) Credit counterparty risk (continued)

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Group'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 £86.7m (2015: £84.3m), none of which was rated.

The Group 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 Group also monitors the debt via the Asset & Liability and Intermediary Collection Committees and provides against older debts.

The insurance receivables predominantly relate to receivables due from policyholders, agents and brokers which has no default risk by nature. The concentrations of credit risk with respect to insurance receivables are limited due to the size and spread of the Group's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

The Group'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	**281,885**	**140,285**	**294,014**	**333,618**	**75,571**	**1,826**	**1,127,199**
Cash and cash equivalents	**-**	**71,437**	**208,131**	**28,378**	**-**	**2,501**	**310,447**
Loans and other receivables	**-**	**-**	**200,000**	**-**	**-**	**30,950**	**230,950**
Insurance receivables	**-**	**-**	**16,887**	**-**	**-**	**258,876**	**275,763**
Reinsurance assets	**-**	**440,019**	**49,038**	**-**	**-**	**194**	**489,251**
Total exposure	**281,885**	**651,741**	**768,070**	**361,996**	**75,571**	**294,347**	**2,433,610**

	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	265,683	168,324	242,164	335,140	56,751	3,411	1,071,473
Cash and cash equivalents	4,491	236,069	304,117	100,786	40,005	-	685,468
Loans and other receivables	-	-	2,948	-	-	5,269	8,217
Insurance receivables	-	-	91	-	-	237,434	237,525
Reinsurance assets	-	348,008	42,400	-	-	8,022	398,430
Total exposure	270,174	752,401	591,720	435,926	96,756	254,136	2,401,113

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

b) Financial risk (continued)

ii) Credit counterparty risk (continued)

Offsetting financial assets and financial liabilities
Financial assets and liabilities are offset in the Statement of Financial Position when the Group intends to apply a current legally enforceable right to offset. Master netting arrangements and cash collateral are utilised by the Group 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 received**	**Net amount**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets						
Total	**-**	**-**	**-**	**-**	**-**	**-**

	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**
Financial liabilities						
Derivative financial liabilities	**22,613**	**-**	**22,613**	**-**	**22,613**	**-**
Bank overdrafts	**25,554**	**11,865**	**13,689**	**-**	**-**	**13,689**
Total	**48,167**	**11,865**	**36,302**	**-**	**22,613**	**13,689**

As at 31 December 2015	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 assets						
Derivative financial assets	1,859	-	1,859	-	1,480	379
Total	1,859	-	1,859	-	1,480	379

	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
Financial liabilities						
Bank overdrafts	24,659	15,059	9,600	-	-	9,600
Total	24,659	15,059	9,600	-	-	9,600

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

b) Financial risk (continued)

ii) Credit counterparty risk (continued)

Offsetting financial assets and financial liabilities (continued)

In accordance with IFRS 7 the amount reported in the previous table is limited to the amount of the derivative asset reported in the Statement of Financial Position. No collateral received from the counterparty has been sold or repledged (2015: £nil).

As at 31 December 2016 the fair value of cash collateral held was £nil (2015: £1.6m) and the fair value of cash collateral pledged was £23.6m (2015: £nil).

Collateral posted to the Group 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.

Impairment
The Group 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 £1.9m (2015: £0.6m) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The tables below provide information regarding the age analysis of the Group's past due but not impaired assets.

Age analysis of assets past due 2016	**<31 days £000**	**31 to 60 days £000**	**61 to 90 days £000**	**>90 days £000**	**Total past due but not impaired £000**	**Neither past due nor impaired £000**	**Total £000**
Insurance receivables	**3,760**	**404**	**212**	**272**	**4,648**	**271,115**	**275,763**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**230,950**	**230,950**

Age analysis of assets past due 2015	<31 days £000	31 to 60 days £000	61 to 90 days £000	>90 days £000	Total past due but not impaired £000	Neither past due nor impaired £000	Total £000
Insurance receivables	5,144	1,092	324	113	6,673	230,852	237,525
Loans and other receivables	-	-	-	-	-	8,217	8,217

The neither past due nor impaired category is mainly made up of policies in instalments.

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

b) Financial risk (continued)

iii) Liquidity risk

Liquidity risk is the risk that the Group cannot make payments as they become due because there are insufficient assets in cash form, or in a form that can be converted to cash in a timely fashion at close to fair market value. The Group is exposed to daily calls on its cash resources from claims arising from insurance contracts it has underwritten.

The Group has a liquidity risk appetite policy which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions. The most significant payments made are claims, the payment profile of which is predictable. The Group 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 policy holders.

The Group 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	
Maturity profile of financial and insurance assets	**Within 1 year £000**	**Over 1 year £000**	**Total £000**	Within 1 year £000	Over 1 year £000	Total £000
Financial assets at fair value through income	**540,282**	**1,029,826**	**1,570,108**	784,152	751,062	1,535,214
Derivative financial instruments	**-**	**-**	**-**	1,859	-	1,859
Loans and other receivables	**230,950**	**-**	**230,950**	8,217	-	8,217
Reinsurers' share of claims outstanding	**117,034**	**355,452**	**472,486**	101,966	284,046	386,012
Insurance receivables	**275,763**	**-**	**275,763**	237,525	-	237,525
Accrued interest	**19,481**	**-**	**19,481**	18,356	-	18,356
Cash and cash equivalents	**310,447**	**-**	**310,447**	685,468	-	685,468
	1,493,957	**1,385,278**	**2,879,235**	1,837,543	1,035,108	2,872,651

All financial assets for the Company are due within one year for both 2015 and 2016.

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

b) Financial risk (continued)

iii) Liquidity risk (continued)

The table below summarises the estimated maturity profile of the financial liabilities of the Group based on remaining undiscounted obligations. The maturity profile of insurance contract liabilities is determined based on the estimated timing of the discounted net cash flows.

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 claims liabilities	**649,933**	**548,863**	**227,182**	**135,975**	**1,561,953**
Derivative financial instruments	**18,979**	**-**	**-**	**3,665**	**22,644**
Subordinated liabilities	**-**	**-**	**-**	**10,243**	**10,243**
Insurance payables	**29,656**	**-**	**-**	**-**	**29,656**
Trade and other payables - excluding tax and social securities and deferred income	**131,500**	**-**	**-**	**-**	**131,500**
	830,068	**548,863**	**227,182**	**149,883**	**1,755,996**

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 claims liabilities	597,826	506,376	134,977	113,743	1,352,922
Provisions	190	-	-	-	190
Derivative financial instruments	23	-	-	-	23
Subordinated liabilities	-	-	-	8,844	8,844
Other financial liabilities	1,550	-	-	-	1,550
Insurance payables	256,216	-	-	-	256,216
Trade and other payables - excluding tax and social securities and deferred income	103,936	-	-	-	103,936
	959,741	506,376	134,977	122,587	1,723,681

All financial liabilities for the Company are due within one year for both 2015 and 2016.

iv) Fair value estimation

The following fair value estimation tables present the Group's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2016.

Level 1 – quoted prices

The fair value of financial instruments included in the Level 1 category is based on the value within the bid-ask spread that is most representative of fair value quoted in an active market at the year-end date. An instrument is regarded as quoted in 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 – observable inputs

Level 2 financial instruments are not traded in an active market and their fair value is determined using valuation techniques. These valuation techniques maximise the use of data from observable current market transactions (where it is available) using pricing obtained via pricing services, even where the market is not active. It also includes financial assets with prices based on broker quotes.

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

b) Financial risk (continued)

iv) Fair value estimation (continued)

Level 2 – observable inputs (continued)
Specific valuation techniques used to value financial instruments classified as Level 2 include:

- Derivatives are valued by discounted cash flow techniques, using observable yield curves and models such as Black Scholes using implied market forward rates and volatilities.
- Units in listed investment funds are valued using quoted prices from external pricing services.
- Debt securities are valued using quoted prices from external pricing services.

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

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.

There were no changes to the valuation techniques during the year. There were no transfers between levels 1 and 2 during the year.

The Group'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.

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

	2016				2015			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Fair value through income								
Shares, other variable yield securities and units in unit trusts	**27,614**	**414,384**	**911**	**442,909**	11,201	451,622	918	463,741
Debt and other fixed income securities	**-**	**1,127,199**	**-**	**1,127,199**	10,233	1,061,240	-	1,071,473
Derivative financial instruments	**-**	**(22,644)**	**-**	**(22,644)**	-	(23)	1,859	1,836
	27,614	**1,518,939**	**911**	**1,547,464**	21,434	1,512,839	2,777	1,537,050

The Company had no assets or liabilities requiring disclosure within the fair value measurement hierarchy as at 31 December 2016 (2015: £3.4m in Level 1).

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

b) Financial risk (continued)

iv) Fair value estimation (continued)

Movement in level 3 instruments measured at fair value:

	Shares, other variable yield securities and units in unit trusts £000	**Derivative financial instruments £000**	**Total £000**
Balance at 1 January 2016	**918**	**1,859**	**2,777**
Movement in write off provision	**(7)**	**-**	**(7)**
Transfer to level 2	**-**	**(610)**	**(610)**
Sales	**-**	**(1,249)**	**(1,249)**
Balance at 31 December 2016	**911**	**-**	**911**

	Shares, other variable yield securities and units in unit trusts £000	Derivative financial instruments £000	Total £000
Balance at 1 January 2015	1,153	(36,844)	(35,691)
Total gain/(loss) recorded in comprehensive income	(246)	37,266	37,020
Movement in write off provision	247	-	247
Purchases	(236)	2,708	2,472
Sales	-	(1,271)	(1,271)
Balance at 31 December 2015	918	1,859	2,777

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

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

b) Financial risk (continued)

iv) Fair value estimation (continued)

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

2016 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**
Financial Assets					
Financial Assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
- Overseas unlisted	**178**	N/A *	N/A *	N/A *	N/A *
- UK unlisted	**733**	Recent arm's length transaction	Price per unit	Distributions or calls since last valuation	Contractual purchase and exit price

2015 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					
Financial Assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
- Overseas unlisted	185	N/A *	N/A *	N/A *	N/A *
- UK unlisted	733	Recent arm's length transaction	Price per unit	Distributions or calls since last valuation	Contractual purchase and exit price
Derivative financial instruments					
Equity/Index Derivatives	1,859	Mark-to-model	Equity volatility	Could be several percentage points	Higher equity volatility results in higher contract value

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

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

b) Financial risk (continued)

v) Other risk types

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 an LVFS group wide 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 Group has not identified any significant group risks.

Operational risk
Operational risk is defined as the potential for loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent to every part of the business and covers a wide spectrum of issues. Senior management are responsible for ensuring that the material operational risks as relevant to their area of responsibilities are identified, assessed and managed using the approach as outlined in the LVFS Group's Enterprise Risk Management Framework. A formal attestation process provides assurance about the effectiveness of the overall control environment and reports on any material exceptions.

5. Net earned premiums

	2016 £000	2015 £000
Insurance contracts		
Premiums written	**1,581,441**	1,471,918
Change in unearned premium reserve	**(51,058)**	(52,084)
Premium revenue arising from insurance contracts issued	**1,530,383**	1,419,834
Reinsurance contracts		
Premiums payable	**(345,273)**	(283,626)
Change in unearned premium reserve	**4,347**	(783)
Premium revenue ceded to reinsurers on insurance contracts issued	**(340,926)**	(284,409)
Net earned premiums	**1,189,457**	1,135,425
Gross premiums earned		
Motor	**1,025,493**	929,037
Property	**166,803**	170,138
Commercial	**251,583**	238,060
Other	**86,504**	82,599
	1,530,383	1,419,834

Other premium revenue includes Travel, Legal and Pet Insurance.

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its booked reserves as at 31 December 2015. This had an impact of £241.7m on premiums ceded to reinsurers during 2015. From 1 January 2016 the Group 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 £296.7m on premiums ceded to reinsurers during 2016.

There were no premiums in the Company for 2016 (2015: £nil).

6. Investment income

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Income from investments at fair value through income:				
- Interest income	**48,783**	64,786	**-**	-
- Dividend income	**11,802**	10,092	**3,400**	37,980
	60,585	74,878	**3,400**	37,980

Dividend income in the Company represents dividends received from Liverpool Victoria Insurance Company, a subsidiary of the Company.

7. Net (losses)/gains on investments at fair value through income

	2016	2015
	£000	£000
(Losses)/gains on investments at fair value through income		
- Debt securities	**(12,782)**	(43,850)
- Equity securities	**23,821**	3,437
- Derivative financial instruments	**(24,724)**	(2,534)
	(13,685)	(42,947)

Net (losses)/gains on investments at fair value through income include net realised losses of £31.3m (2015: Loss £43.7m) and net unrealised gains of £17.6m (2015: Gain £0.8m).

There were no gains or losses on financial assets held at fair value through income in the Company for 2016 (2015: £nil).

8. Other income

	2016	2015
	£000	£000
Interest receivable from insurance contracts	**30,275**	25,866
Other income	**7,330**	9,590
	37,605	35,456

Other income is primarily comprised of fee and commission income.
There was no other income in the Company for 2016 (2015: £nil).

9. *Insurance claims and loss adjustment expenses*

	2016	2015
	£000	£000
Gross insurance claims		
Claims paid during the year	**998,560**	910,124
Claims management costs	**67,100**	61,549
Movement in claims liabilities	**209,031**	46,129
	1,274,691	1,017,802
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(216,449)**	(3,984)
Movement in reinsurers' share of claims liabilities	**(86,474)**	(261,346)
	(302,923)	(265,330)
Net insurance claims	**971,768**	752,472

Included within claims incurred is an increase of £53.5m in respect of motor insurance business (2015: £93.2m decrease) and a decrease of £7.6m in respect of non-motor 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 and include the impact of the Ogden discount rate change.

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its booked reserves as at 31 December 2015. This had an impact of £241.7m on the Movement in reinsurers' share of claims liabilities. From 1 January 2016 the Group 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 £233.9m on claims ceded to reinsurers during 2016.
There were no insurance claims in the Company for 2016 (2015: £nil).

10. Other operating and administrative expenses

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Investment management expenses and charges	**2,861**	3,780	**-**	-
Acquisition expenses	**202,215**	196,497	**-**	-
Movement in deferred acquisition expenses	**(2,826)**	(1,413)	**-**	-
Auditors' remuneration	**882**	487	**-**	-
Amortisation of intangibles	**4,513**	3,515	**-**	-
Administrative expenses	**194,855**	194,494	**-**	19,442
Depreciation on property and equipment owned	**1,348**	1,869	**-**	-
Gross operating and administrative expenses	**403,848**	399,229	**-**	19,442
Expenses recoverable from reinsurers *	**(72,033)**	-	**-**	-
Net operating and administrative expenses	**331,815**	399,229	**-**	19,442

*Expenses recoverable from reinsurers represent 20% of the costs of the general insurance business which are borne by reinsurers as part of the new Quota Share agreement in 2016.

Included within administrative expenses is £nil (2015: £19.4m) relating to a share-based payment scheme (see note 37).

11. Auditors' remuneration

	2016	2015
	£000	£000
Fees payable to the Group's auditors for the audit of the Company and the consolidated financial statements	**15**	8
Fees payable to the Group's auditors and its associates for other services:		
- The audit of the Group's subsidiaries pursuant to legislation	**557**	425
- Audit related assurance services	**190**	54
- Tax advisory services	**14**	-
- Other non-audit services not covered above	**106**	-
	882	487

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	**5,586**	42,627

b) Emoluments of the Directors were as follows:

	Salary	**Bonus**	**Deferred Bonus**	**Other Benefits**	**Long Term Incentive Plan**	**Total 2016**	Total 2015
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Highest paid Director	**398**	**368**	**62**	**102**	**236**	**1,166**	10,742
All Directors	**2,672**	**953**	**105**	**500**	**1,356**	**5,586**	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 in 2013 at which point existing members were eligible to join the defined contribution section.

In 2016 there were £57,812 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 period	**£000**	£000
All Directors	**141**	210

13. Income tax (credit)/expense

a) Current year tax (credit)/expense

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Current year tax (credit)/expense				
Corporation tax in respect of current year	**(4,311)**	12,348	**-**	-
Adjustment to current tax in respect of prior years	**(60)**	(46)	**-**	-
Total current tax	**(4,371)**	12,302	**-**	-
Deferred tax				
Adjustment to deferred tax in respect of prior years	**84**	(56)	**-**	-
Tax losses	**(3,949)**	-	**-**	-
Temporary differences	**136**	(68)	**-**	-
Total deferred tax	**(3,729)**	(124)	**-**	-
Total income tax (credit)/expense	**(8,100)**	12,178	**-**	-

b) Reconciliation of tax (credit)/expense

The tax assessed for the year is lower (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
(Loss)/profit before tax	**(29,974)**	50,792	**3,400**	18,538
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**(5,995)**	10,285	**680**	3,754
Effects of:				
Impact of change in UK corporation tax rate on deferred tax	**195**	155	**-**	-
Expenses not deductible for tax purposes	**37**	3,875	**-**	3,937
Adjustment to deferred tax in respect of prior years	**84**	(56)	**-**	-
Adjustment to current tax in respect of prior years	**(60)**	(46)	**-**	-
Income not subject to corporation tax	**(2,361)**	(2,035)	**(680)**	(7,691)
Total income tax (credit)/expense	**(8,100)**	12,178	**-**	-

14. Intangible assets

	Goodwill	Other intangible assets	Software and licence costs	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2016	**185,591**	**24,092**	**19,293**	**228,976**
Additions	**-**	**-**	**32,260**	**32,260**
At 31 December 2016	**185,591**	**24,092**	**51,553**	**261,236**
Accumulated amortisation				
At 1 January 2016	**-**	**17,451**	**1,829**	**19,280**
Amortisation charge for the year	**-**	**1,824**	**2,689**	**4,513**
At 31 December 2016	**-**	**19,275**	**4,518**	**23,793**
Net book value at 31 December 2016	**185,591**	**4,817**	**47,035**	**237,443**

	Goodwill	Other intangible assets	Software and licence costs	Total
	£000	£000	£000	£000
Cost				
At 1 January 2015	185,591	24,092	10,641	220,324
Additions	-	-	8,652	8,652
At 31 December 2015	185,591	24,092	19,293	228,976
Accumulated amortisation				
At 1 January 2015	-	15,627	138	15,765
Amortisation charge for the year	-	1,824	1,691	3,515
At 31 December 2015	-	17,451	1,829	19,280
Net book value at 31 December 2015	185,591	6,641	17,464	209,696

There were no intangible assets held by the Company in 2016 (2015: £nil).

Amortisation and impairment losses are presented in Other operating and administrative expenses in the Statement of Comprehensive Income.

Other intangibles primarily comprise the value of the future benefit derived from customer bases recognised on acquisitions, which are being amortised over periods varying between 10 and 20 years from the original acquisition date. These intangible assets will be fully amortised by 2026.

14. Intangible assets (continued)

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.

Key assumptions used in the impairment testing of goodwill
The recoverable amount of the general insurance business has been determined using cash flow predictions based on financial plans approved by the Directors 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 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 including goodwill by £1,238m. A two percentage point increase in the discount rate would reduce the recoverable amount by £494m; the discount rate would need to be increased to 18% to reduce the excess of the recoverable amount over the carrying value 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 1% increase in the loss ratio would reduce the recoverable amount by £192m, the loss ratio would need to increase by 6.5% to reduce the excess of the recoverable amount over the carrying value to zero. Key loss ratio assumptions are based on a combination of historic and current market place trends, and management judgement.

15. Property and equipment

	Leasehold property enhancements	Fixtures, fittings and IT equipment	Total
	£000	£000	£000
Cost			
At 1 January 2016	8,347	6,911	15,258
Additions	57	3,122	3,179
At 31 December 2016	8,404	10,033	18,437
Accumulated depreciation			
At 1 January 2016	3,960	4,823	8,783
Provided in the year	883	465	1,348
At 31 December 2016	4,843	5,288	10,131
Net book value at 31 December 2016	3,561	4,745	8,306

	Leasehold property enhancements	Fixtures, fittings and IT equipment	Total
	£000	£000	£000
Cost			
At 1 January 2015	8,287	6,676	14,963
Additions	66	235	301
Disposals	(6)	-	(6)
At 31 December 2015	8,347	6,911	15,258
Accumulated depreciation			
At 1 January 2015	3,056	3,858	6,914
Provided in the year	904	965	1,869
At 31 December 2015	3,960	4,823	8,783
Net book value at 31 December 2015	4,387	2,088	6,475

There was no property or equipment held by the Company in 2016 (2015: £nil).

16. Investments in group undertakings

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
At 1 January	-	-	678,913	678,913
Balance at 31 December	-	-	678,913	678,913

The Company has examined the carrying value of its investment in subsidiaries and concluded that no impairment was necessary in regard to these investments (2015: £nil).

17. Prepayments and accrued income

	2016	2015
	£000	£000
Accrued interest	**19,481**	18,356
Other prepayments and accrued income	**16,020**	11,926
	35,501	30,282

There were no prepayments and accrued income held by the Company in 2016 (2015: £nil).

18. Deferred acquisition costs

	2016	2015
	£000	£000
At 1 January	**98,906**	97,493
Acquisition expenses deferred	**202,215**	196,497
Amortisation	**(199,389)**	(195,084)
At 31 December	**101,732**	98,906

There were no deferred acquisition costs held by the Company in 2016 (2015: £nil).

19. Financial assets - fair value through income

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Shares, other variable yield securities and units in unit trusts	**442,909**	463,741	**-**	3,400
Debt and other fixed income securities	**1,127,199**	1,071,473	**-**	-
	1,570,108	1,535,214	**-**	3,400

20. Derivative financial instruments

	2016			2015		
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
	£000	**£000**	**£000**	£000	£000	£000
Interest rate swaps	**137,000**	**-**	**(3,665)**	-	-	-
Forward exchange contracts	**1,370**	**-**	**(31)**	862	-	(23)
Equity/index derivatives	**396,802**	**-**	**(18,948)**	180,241	1,859	-
	535,172	**-**	**(22,644)**	181,103	1,859	(23)

The Group uses derivatives primarily to reduce its exposure to interest rate risk and to protect against falls in the FTSE 100. The Group has increased its use of fixed income derivatives over 2016 to manage the interest rate exposure of the Solvency II surplus capital position.

There were no derivative financial instruments held by the Company in 2016 (2015: £nil).

21. Loans and other receivables

	2016 £000	2015 £000
Reverse repurchase agreements	**200,000**	-
Cash collateral pledged	**23,600**	-
Other receivables	**7,350**	5,269
Deposits with credit institutions	**-**	2,948
	230,950	8,217

There were no loans and other receivables held by the Company in 2016 (2015: £nil).

22. Reinsurance assets

	2016 £000	2015 £000
Reinsurers' share of provision for unearned premiums	**16,765**	12,418
Reinsurers' share of claims outstanding	**472,486**	386,012
	489,251	398,430

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

There were no reinsurance assets held by the Company in 2016 (2015: £nil).

23. Insurance receivables

	2016 £000	2015 £000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	**172,173**	153,056
- Due from agents, brokers and intermediaries	**86,704**	84,336
- Due from reinsurers	**16,886**	133
	275,763	237,525

There were no insurance receivables held by the Company in 2016 (2015: £nil).

24. Cash and cash equivalents

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Bank balances	**21,575**	77,647	**9**	9
Short term bank deposits	**288,872**	607,821	**-**	-
Cash and cash equivalents per Statement of Financial Position	**310,447**	685,468	**9**	9
Non-offsettable Bank overdrafts (see note 31)	**(13,689)**	(9,600)	**-**	-
Cash and cash equivalents per Statement of Cash Flows	**296,758**	675,868	**9**	9

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	**1,561,953**	**(472,486)**	**1,089,467**	1,352,922	(386,012)	966,910
General insurance unearned premiums	**791,348**	**(16,765)**	**774,583**	740,290	(12,418)	727,872
	2,353,301	**(489,251)**	**1,864,050**	2,093,212	(398,430)	1,694,782

b) Movement in general insurance claims liabilities

	2016			2015		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
OCR	**1,367,988**	**(315,229)**	**1,052,759**	1,271,039	(57,646)	1,213,393
IBNR	**(15,066)**	**(70,783)**	**(85,849)**	35,799	(67,065)	(31,266)
Balance at 1 January	**1,352,922**	**(386,012)**	**966,910**	1,306,838	(124,711)	1,182,127
Movement in claims incurred in prior accident years	**31,403**	**(134,159)**	**(102,756)**	(101,214)	(129,812)	(231,026)
Claims incurred in the current accident year	**1,171,144**	**(168,764)**	**1,002,380**	1,057,422	(135,473)	921,949
Claims paid during the year	**(998,560)**	**216,449**	**(782,111)**	(910,124)	3,984	(906,140)
Unexpired risk reserve	**5,044**	**-**	**5,044**	-	-	-
	209,031	**(86,474)**	**122,557**	46,084	(261,301)	(215,217)
Balance at 31 December	**1,561,953**	**(472,486)**	**1,089,467**	1,352,922	(386,012)	966,910
OCR	**1,353,925**	**(107,862)**	**1,246,063**	1,367,988	(315,229)	1,052,759
IBNR	**202,984**	**(364,624)**	**(161,640)**	(15,066)	(70,783)	(85,849)
Unexpired risk reserve	**5,044**	**-**	**5,044**	-	-	-
Balance at 31 December	**1,561,953**	**(472,486)**	**1,089,467**	1,352,922	(386,012)	966,910

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	**740,290**	**(12,418)**	**727,872**	688,206	(13,201)	675,005
Premiums written in the year	**1,581,441**	**(345,273)**	**1,236,168**	1,471,918	(283,626)	1,188,292
Premiums earned during the year	**(1,530,383)**	**340,926**	**(1,189,457)**	(1,419,834)	284,409	(1,135,425)
Balance at 31 December	**791,348**	**(16,765)**	**774,583**	740,290	(12,418)	727,872

There were no insurance contract liabilities held by the Company in 2016 (2015: £nil).

25. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for motor and household products 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 date. 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.

Unexpired Risk Reserve ('URR')

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

26. Provisions

	2016 £000	2015 £000
Balance at 1 January	**190**	2,888
Provided during the year	**-**	53
Released during the year	**(190)**	(2,751)
Balance at 31 December	**-**	190

There were no provisions held by the Company in 2016 (2015: £nil).

27. Current tax asset/(liability)

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
At 1 January	**(802)**	(8,272)	**-**	(11)
Amounts recorded in the Statement of Comprehensive Income	**4,371**	(12,302)	**-**	-
Group relief paid	**5,416**	1,990	**-**	11
Income tax paid	**3,826**	17,782	**-**	-
At 31 December	**12,811**	(802)	**-**	-

28. Deferred tax asset/(liability)

	2016 £000	2015 £000
At 1 January	**(223)**	(347)
Amounts recorded in the Statement of Comprehensive Income	**3,729**	124
At 31 December	**3,506**	(223)

Analysis of deferred taxation temporary differences:	**£000**	£000
Accelerated capital allowances	**1,012**	1,457
Trading losses carried forward	**3,949**	-
Intangible fixed assets	**(1,455)**	(1,680)
	3,506	(223)

The analysis of the deferred tax balance is as follows:	**£000**	£000
Deferred tax asset/(liability) expected to be recovered/(settled) after more than 12 months	**2,127**	(161)
Deferred tax asset/(liability) expected to be recovered/(settled) within 12 months	**1,379**	(62)
Net deferred tax asset/(liability)	**3,506**	(223)

There was no deferred tax held by the Company in 2016 (2015: £nil).

The valuation and recoverability of deferred tax assets relating to taxable losses and capital allowances in excess of depreciation is dependent on the availability of future taxable profits within the Company and Group. 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.

29. Other financial liabilities

	2016	2015
	£000	£000
Cash collateral received	-	1,550
Subordinated note	10,243	8,844
	10,243	10,394

A €12.0m subordinated note is repayable to Merrill Lynch in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%.

There were no other financial liabilities held by the Company in 2016 (2015: £nil).

30. Insurance payables

	2016	2015
	£000	£000
Due to reinsurers	28,314	252,837
Due to policy holders	1,315	3,354
Due to intermediaries	27	25
	29,656	256,216

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer agreement resulting in reinsurance of 20% of its booked reserves as at 31 December 2015. This had an impact of £241.7m on the amounts due to reinsurers which was settled in full in 2016.

There were no insurance payables due by the Company in 2016 (2015: £nil).

31. Trade and other payables

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Bank overdrafts	13,689	9,600	-	-
Amounts owed to group undertakings	71,048	47,302	39,453	39,453
Accruals and deferred income	44,439	42,291	-	-
Other taxes and social security costs	38,647	32,037	-	-
Other payables	2,324	4,743	-	3,500
Deferral rental income	202	240	-	-
	170,349	136,213	39,453	42,953

Included within other payables is £nil of share capital (2015: £3.5m) (see note 32).

32. Share capital

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Owned by the LVFS Group				
Ordinary shares, allotted and fully paid				
400,312,253 ordinary shares of £1 each	**400,312**	400,312	**400,312**	400,312
Ordinary B shares, allotted and fully paid				
4,500,000 (2015: 1,000,000) ordinary shares of £1 each	**4,500**	1,000	**4,500**	1,000
Owned by Key Management Personnel				
Ordinary B shares, allotted and fully paid				
nil (2015: 3,500,000) ordinary shares of £1 each	**-**	3,500	**-**	3,500

In May 2013 the Company issued ordinary B shares to certain key management personnel (see note 37). Due to the terms of this share issue these shares were initially reported in trade and other payables (see note 31). These shares were purchased by LVFS in 2016: £3.5m and 2015: £1m at which point they were recognised as share capital in the LVGIG Statement of Financial Position.

All authorised shares have been issued.

33. Preference shares

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Preference shares				
170,000,000 preference shares of £1 each	**170,000**	170,000	**170,000**	170,000

The preference shares are non-cumulative and perpetual £1 preference shares. Dividends are payable at the rate of Libor+1% subject to a minimum of 4%.

34. Retained earnings

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Balance at 1 January	**143,487**	116,473	**68,057**	61,119
(Loss)/profit for the year	**(21,874)**	38,614	**3,400**	18,538
Dividends paid	**(6,800)**	(11,600)	**(6,800)**	(11,600)
Balance at 31 December	**114,813**	143,487	**64,657**	68,057

35. Dividends per share

The following dividends were declared and paid in the year:

- £nil dividend payment on ordinary shares – nil per share (2015: £30.0m – 7.5p per share)
- £6.8m dividend payment on preference shares - 4p per share (2015: £6.8m - 4p per share).

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

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
(Loss)/profit before tax	**(29,974)**	50,792	**3,400**	18,538
Investment income	**(60,585)**	(74,878)	**(3,400)**	(37,980)
Interest income received	**(30,275)**	(25,866)	**-**	-
Finance costs	**353**	319	**-**	-
Losses on financial instruments recorded in the Statement of Comprehensive Income	**13,685**	42,947	**-**	-
Exchange losses/(gains) on financial instruments recorded in the Statement of Comprehensive Income	**1,399**	(468)	**-**	-
Non-cash items				
Expenses deferred during the year	**(2,826)**	(1,413)	**-**	-
Amortisation of intangible assets	**4,513**	3,515	**-**	-
Depreciation on property and equipment	**1,348**	1,869	**-**	-
Loss on disposal of property and equipment	**-**	6	**-**	-
Changes in working capital				
(Increase)/decrease in prepayments	**(4,094)**	3,111	**-**	-
(Increase)/decrease in loans and other receivables	**(222,733)**	30,631	**-**	-
Increase in reinsurance assets	**(90,821)**	(260,518)	**-**	-
Increase in insurance receivables	**(38,238)**	(35,130)	**-**	-
Increase in insurance contract liabilities	**260,089**	98,168	**-**	-
Decrease in provisions	**(190)**	(2,698)	**-**	-
(Decrease)/increase in insurance payables	**(226,560)**	241,138	**-**	-
(Decrease)/increase in collateral received	**(1,550)**	650	**-**	-
Increase in trade and other payables	**33,547**	5,383	**-**	19,453
Cash (used in)/generated from operating activities	**(392,912)**	77,558	**-**	11

The Group classifies the cash flows for the acquisition and disposal of financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investment contract benefits.

37. Related party transactions

The Group enters into transactions with key management personnel in the normal course of business. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

Key management personnel of the Group include all directors, executive and non-executive, and senior management (the Board and the Executive Committee). The summary of the compensation of key management personnel for the year is as follows:

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Short-term employee benefits	**4,432**	7,129	**4,230**	6,769
Post-employment benefits	**63**	73	**58**	73
Other long-term benefits	**1,384**	40,921	**1,356**	35,858
	5,879	48,123	**5,644**	42,700

In May 2013, certain key management personnel invested £4.5m in the B ordinary share capital of the Company as part of an arrangement covering the three year period from 1 January 2013 to 31 December 2015.

This arrangement allowed the holders of the B ordinary shares to benefit from the total shareholder return (being the equity increase in the market valuation of the Group plus dividends paid) generated over this three year period. This arrangement was accounted for as a cash-settled share-based payment transaction under IFRS2.

The table below shows the final value of the shares included in this share scheme arrangement, settlement for which was completed in February 2016.

	£000
Shares subscribed	4,500
Less leavers shares repurchased in 2015	(1,000)
Fair value of goods and services	39,442
Final share valuation	42,942

An estimate of the final fair value of the goods and services to be received by the Group, and LVFS, was accrued evenly over the three year term of the arrangement, with an adjustment made in 2015 to reflect the actual outcome. This resulted in a £19.4m charge to staff costs within the 2015 financial statements. The market valuation of the Group used for the purpose of the final valuation at 31 December 2015 was based on agreement between the parties, having taken advice from an independent third party expert.

The final liability of £42.9m was settled by LVFS in February 2016. There is an intercompany creditor owed by LVGIG to LVFS for the fair value of the goods and services included within Trade and other payables as at 31 December 2016.

37. Related party transactions (continued)

The following transactions have taken place between the Group and other Group companies:

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Dividend received from LVIC	**-**	-	**3,400**	37,980
Dividend paid to LV Capital PLC	**(6,800)**	(36,800)	**(6,800)**	(36,800)
Management charge	**(212,903)**	(202,749)	**-**	-
	(219,703)	(239,549)	**(3,400)**	1,180

Balances outstanding between the Group and other Group companies:

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Payable to LVFS	**(71,048)**	(47,302)	**(39,453)**	(39,453)
Preference shares to LV Capital PLC	**(170,000)**	(170,000)	**(170,000)**	(170,000)
	(241,048)	(217,302)	**(209,453)**	(209,453)

38. Operating lease commitments

As at 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings of:

	2016	2015
	£000	£000
Within 1 year	**1,144**	1,144
In 2 to 5 years	**1,255**	2,399
	2,399	3,543

The costs in respect of operating leases are charged on a straight line basis over the lease term. The value of any incentive received to take on an operating lease (for example rent free periods) is recognised as deferred income and is released over the life of the lease.

39. Investments in subsidiary undertakings

All subsidiary undertakings have the same year end as LVGIG and all are included in the consolidation. The Company's investments in subsidiaries comprises:

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%	Ordinary
Highway Insurance Company Limited	England and Wales	General insurance	100%	Ordinary
Liverpool Victoria Insurance Company Limited	England and Wales	General insurance	100%	Ordinary
LV Insurance Management Limited	England and Wales	Management Services Company	100%	Ordinary
LV Assistance Services Limited	England and Wales	Road rescue - pay on use	100%	Ordinary
LV Repair Services Limited	England and Wales	Repair services	100%	Ordinary
Ockham Corporate Limited	England and Wales	Dormant	100%	Ordinary
Highway Group Services Limited	England and Wales	Dormant	100%	Ordinary
Highway Corporate Capital Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.1 Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.2 Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.3 Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.4 Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.5 Limited	England and Wales	Dormant	100%	Ordinary
NLC Name No.7 Limited	England and Wales	Dormant	100%	Ordinary

*All holdings are direct holdings apart from Highway Insurance Company Limited, LV Repair Services Limited and Highway Group Services Limited which are 100% held indirectly and Highway Insurance Group Limited which is 99.9999% held indirectly and 0.0001% held directly.

The registered address of all the above undertakings is County Gates, Bournemouth, BH1 2NF.

Significant Restrictions
There are no significant restrictions in place regarding any of the subsidiaries above.

40. Investments in unconsolidated structured entities

The Group has interests in structured entities which are not consolidated as the definition of control has not been met based on the proportion of the investment of the structured entity held by the Group. As at 31 December 2016 the Group's interest in unconsolidated structured entities was £442.2m (2015: £463.0m) which is classified as *financial assets held at fair value through income*.

The Group's exposure to financial loss from the interest in the unconsolidated structured entities is limited to the investment amount shown below. The Group is not required to provide financial support to the entities, nor does it sponsor the entities.

Investment	**2016** **£000**	2015 £000
OEICS (Open Ended Investment Company)	**242,027**	215,604
Liquidity Funds	**200,149**	247,404
Total	**442,176**	463,008

41. Post year end events

The change in the Ogden discount rate had a £138.5m adverse impact on the Group's pre-tax profit and a £100m adverse impact on the Group's Solvency II capital surplus. To support the capital position of Liverpool Victoria Insurance Company Limited ('LVIC'), a regulated subsidiary of the Group, the Company purchased 40 million ordinary shares of £1 each in LVIC at par on 28 February 2017. This capital injection was not recognised in the 2016 results. In order to fund this capital injection the Company issued 40 million ordinary shares of £1 each at par to LV Capital PLC, its parent company, on 28 February 2017.

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

42. 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 LV Capital PLC, a limited liability company, incorporated in the UK.

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

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

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

or at www.lv.com/annualreport