COMPANY REGISTRATION NUMBER: 03730662

HIGHWAY
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

C O N T E N T S

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

J M Dye	(resigned 30.11.2021)
R O Hudson	(resigned 14.05.2021)
S Treloar	
D A Torrance	
D J Larnder	
C W T Dinesen	
R M Murison	
F K Dyson	
C G Townsend	(appointed 29.04.2021)
P J Evans	(appointed 14.05.2021)
C J Holmes	(appointed 22.02.2022)
S C McGinn	(appointed 22.02.2022)

Company Secretary
C M Twemlow

Registered office
57 Ladymead
Guildford
Surrey
England
GU1 1DB

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

STRATEGIC REPORT

1. Principal activities

Highway Insurance Company Limited (‘HICO’, ‘the Company’) is a wholly owned subsidiary within the Allianz Holdings plc (‘AZH’) group of companies (‘Allianz,’ the ‘Group’) which is one of the largest general insurers in the United Kingdom measured by gross written premium. The Company’s principal purpose is to carry on general insurance business through broker distribution channels. The primary source of premium income is from the sale of motor insurance products. Motor insurance products for the Company, are defined as and include Private car, Specialist car and Motorcycle. The Company also receives income from the sale of home insurance products.

As part of the acquisition of Liverpool Victoria General Insurance Group Limited (‘LVGIG’) an intermediate parent company, by Allianz, which concluded on December 31, 2019, the Company ceased writing Commercial broker new business. The Commercial broker business represented a separate major line of business for the Company and is therefore presented as a discontinued operation. The discontinued operations are therefore shown on one line only in the Statement of Comprehensive Income.

As part of Allianz’s strategy to diversify and grow its business, on January 3, 2020, LVGIG purchased Legal and General Insurance Limited, (‘LGIL’) subsequently renamed as Fairmead Insurance Limited (‘Fairmead’). Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home and was at the time, the seventh largest home insurance provider in the UK with more than 2 million customers. Fairmead use various distribution channels including Direct, Brokers, Managing General Agents (MGAs) and Independent Financial Advisors (‘IFAs’).

During 2021, the Company completed the migration of all broker customers of Fairmead, completing the work started in 2020, going live with a new home offering including Home Legal and Home Emergency. The Company now being well placed to take on and write more broker Home business.

In July 2021, the Allianz business in the UK restructured its operations to form two new trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated central functions of Operations, Finance, Risk and Human Resources. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific segments. The products sold by the Company fall within the scope of the Allianz Personal wider division which also includes speciality products such as Animal Health and musical instruments. The CEO of Allianz Personal is S Treloar, who was previously CEO of the LVGIG group of companies and is a Director of the Company.

2. Results and dividends

The loss after tax for the year attributable to the owners of the parent is £20,227,000 (2020: £1,564,000) as set out on page 29. During 2021, the Directors have declared and paid £nil in the current year to the parent company as an interim dividend (2020: £nil). No final dividends were proposed or paid (2020: £nil). The Net Asset Value at December 31, 2021 was £212,237,000 down £38,166,000 from the position the previous year.

3. Business review and developments

(a) Results and performance

The 2021 results for the Company show a loss before taxation from continuing operations of £22,192,000 (2020: £740,000). The Company benefited from a significant investment gain in 2020 as it restructured its investment portfolio. The underwriting result saw less benefit from motor claims frequency in 2021 alongside increased severity and large losses.

In 2021, the Company saw the number of customers who hold a policy increase by 0.1m to 1.2m (2020: 1.1m). This was in part due to the continued transfer of Broker Home business from Fairmead to the Company with the final migration for the Broker business going live in 2021.

3. Business review and developments

(a) Results and performance (continued)

Customer satisfaction measures remain strong within LVGIG with our underlying Net Promoter Score ('NPS') on LVGIG which represents the customers of the Company and its parent Liverpool Victoria Insurance Company ('LVIC') at 76% (2020: 72%). LV= was recognised by Which? as Insurance Provider of the Year 2021 and as a recommended provider for Car, Home and Breakdown.

The following factors have had a material effect on the result for the year (see also (g) Key performance indicators on page 9):

1. Premium written: Market conditions have remained highly competitive, particularly in the Motor market. Overall, the Company saw an increase of 1% in premium written on a continuing basis. The Company has continued to write business in the historical channels and the Clear Home product through the Broker channel, taken on from Allianz. Throughout 2021, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in the Home lines of business which nearly doubled, diversifying its reliance upon Motor.

2. Underwriting result: The Company's underwriting result from continuing operations deteriorated during 2021, delivering a combined ratio of 112.8% (2020: 106.9%). The motor accounts continue to experience frequency reductions compared to the levels seen historically, however this was more than offset by increased severity and vehicle repair costs as well as a high number of large claims. Storm Arwen in November had an impact on both Home and Motor.

3. Investment returns: Overall investment returns for 2021 were £7.9m, a decrease of £11.8m, from the previous year which included a realised gain of £10m, which was as a result of the portfolio restructure following the appointment of new fund managers PIMCO, an Allianz Group company.

4. Expenditure: The Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy. Despite this, due to a change in the quota share arrangement to Allianz SE, the ultimate parent company, and increased integration costs the expense ratio has deteriorated. The Company invested in significant integration costs of £14.2m in relation to both the acquisition of the Fairmead Home business and the integration of IT systems with Allianz. These costs are reported within other expenses and consist of: building new products; setting up processes for the transfer of Fairmead customers to the LVGIG underwriters LVIC and HICO and integration of processes & systems with Allianz.

5. Claims: During 2021, the Company has experienced a number of large claims. There has been a drop in Motor claims frequency, compared to the levels seen historically, however this is more than offset due to increased severity and vehicle repair costs due to the specialist nature of some of the Motor lines. Vehicle repair costs increased due to inflation and the additional complexity of the technology within cars, which combined with large claims experiences in the year led to a higher claims position, with overall gross claims having increased by over 9% year on year from continuing operations, from £315.9m to £344.3m. Despite gross claims increasing, the net underwriting loss ratio has improved.

6. Reinsurance: For the 2019 renewal onwards, there was a change of reinsurer to Allianz SE, the ultimate parent company, at a 20% quota share arrangement on new business. The Quota Share reinsurance arrangement entered into with Allianz Re has been renewed for 2021 on a 40% basis, up from 20% in 2020. This new contract has changed in nature, whereby the Company has not transferred any consideration in return for the reinsurer assuming the element of ceded reserves passed to them under the quota share arrangement ("Funds Withheld"). Previously, the Company had transferred consideration ("Funds Transferred"). Instead a deposit is retained by the Company, there is no longer a profit share element and the reinsurer bears a greater share of the expenses. This has materially impacted the net figures versus 2020.

3. Business review and developments

(b) Business environment

In August 2021, the Financial Conduct Authority ('FCA') issued the General Insurance Pricing Practices policy statement PS21/11, which took effect from January 1, 2022. The new rules will ensure that there is no price differential between new business and renewal customers using the same channels, thus ending the practice of subsidising new business prices. This will have a major impact on both Personal Lines Motor and Home insurance market.

The Whiplash Injury Regulations came into effect on May 31, 2021 which will also have a significant impact on the level of payments made to Whiplash claimants.

(c) Strategy

The LVGI Groups vision, which the Company is part of, is to be Britain's best loved insurer, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperforming particularly in the Motor market.

During 2021, the Allianz business in the UK restructured its operations to form two new trading divisions, Allianz Personal and Allianz Commercial supported by the integrated shared services of Operations, Finance, Risk and HR. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific segments. The products sold by the Company fall within the scope of Allianz Personal. The CEO of Allianz Personal is S Treloar, who was previously the CEO of the LVGIG group of companies and is a Director of the Company.

(d) Principal risks and uncertainties

Financial risks which the Company responded to during the last 2 years include adverse movements in investments held, in particular the increase in credit spreads (the gap between yields and the risk free rate) on the corporate bond portfolio. This started to improve towards the end of 2021.

Over the last 2 years we have worked closely with our key suppliers to understand and manage the impact of COVID-19 on our supply chain. The reduced demand helped these companies to operate with their own diminished operational capabilities but equally put financial pressure on many of them.

The solvency position of the Company is monitored on a regular basis and as noted above, the impact has in some cases been positive, such as the reduced claims frequency and in others causes a strain. We continue to assess the level of solvency against the company's risk appetite and maintain a number of contingency actions should the solvency position become under stress and need addressing.

Pricing: Motor market rates fell over 2021 as claims severity continued to increase, but overall claims were lower due to decreased frequency. The market uncertainty around the implementation of the FCA Pricing Study may have also played into the latter part of the year.

Economic Environment: During 2021, the UK economy continued to recover towards pre-pandemic levels although uncertainties remained for a number of industries and sectors. For the UK, in particular UK Government Short dated bonds, rates recovered from the negative positions at the end of 2020 of -0.04% up 69bps to 0.65% reflecting the more positive outlook. Medium to long term bonds also rose. In December 2021, the Bank of England increased the base rates from the historic low of 0.1% up to 0.25%, with the ongoing increase in inflation rates.

3. Business review and developments

(d) Principal risks and uncertainties (continued)

Inflation risk is the risk that changes in inflation expectation will adversely affect the company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities. More generally, impacts from COVID-19 and Brexit such as supply chain disruption are driving a heightened level of inflation risk. This has led to inflationary pressure on property and motor damage claims through materials, parts and labour, and also injury and liability claims through delays in treatment for example. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims. As an indication, a 1% increase in claims inflation across all claims corresponds to a £3m increase in the ultimate cost of claims.

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

Business Change: The Company has continued on the journey it started in 2019, to embed key services such as its Risk and Finance functions, along with the previously merged IT, HR, Compliance and Internal Audit which fully integrated into Allianz (in 2020) giving the Company access to a wider pool of expertise. In July 2020 Allianz announced as part of the integration of the Fairmead Home insurance business, a number of roles would be lost, as the business restructured and prepared itself for the future.

Distribution/Market developments: The influence of the mobile internet and price comparison websites (commonly referred to as "aggregators") continues to be a major impact on the UK business environment. The use of artificial intelligence and the need for digital transformation is now at the forefront of how the Company wants to do business with its customers and as such the Company is looking at ways to utilise the technology available. Social media continues to be a feature which influences the way that the Company conducts its business, and is therefore monitored closely by the Company.

Insurance specific developments in technology, such as driverless cars, are other potential factors of material market transformation in the future. The Company, is not only prepared to respond quickly to changing circumstances, but is looking to lead the way with innovation through the use of data science and new technology.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as it considers appropriate through the purchase of reinsurance protection. During 2021, the Company experienced some impact from the storms at the end of the year, but has broadly stayed in line with levels anticipated in the annual business plan.

Regulatory: The Company used the Standard Formula to calculate its capital requirements during 2021. As noted on page 6 section b, in August 2021, the FCA issued the General Insurance Pricing Practices policy statement PS21/11, which took effect from January 1, 2022. Further information can be found in the Section 172 Report.

Following the Russian military invasion of Ukraine on February 24, 2022, the on-going conflict is a new source of uncertainty for the Company in 2022. Management have reviewed the risks to the Company and considering in particular, underwriting and direct investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

Whilst the Company has no direct underwriting exposure to Russia or Ukraine, a minimal level of travel insurance claims are anticipated arising from trip cancellations and repatriations. We are monitoring closely any impacts of the event in Ukraine on claims' supply chains and inflation for our core Motor and Home products. As of today, we believe these are within our normal trading parameters, however long-term effects are uncertain and dependent on the duration of the disruption.

3. Business review and developments

(d) Principal risks and uncertainties (continued)

Our investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate and emerging market bonds have declined due to rising spreads. Values of developed market bonds initially benefited from a flight to safety but have since declined as yields increased securitised assets, real estate and private debt funds have been relatively unaffected by the crisis and continue to provide stable income. The Company doesn’t have any direct investment exposure to Russian, Ukrainian and Belarussian issuers through emerging market debt investments. Overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool where highly liquid assets are retained in a centrally managed fund.

The wider macro-economic impacts including those arising from sanctions include further upward pressure on inflation, particularly driven by rising energy costs, increasing the pressure on our customers and increasing the cost of our claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber attacks targeted at the UK, resulting in disruption to national infrastructure or third party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our local and global Crisis Management framework.

Management are taking particular care with our people, ensuring that communications are focussed on wellbeing and providing additional support to colleagues who are personally impacted by the conflict.

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

(e) Future outlook

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

We will look to monitor the operational risks and impacts of the potential inflationary environment, continuing to put the customer at the heart of everything we do and working with our suppliers to ensure we continue to treat customers fairly.

(f) Significant post year end events

On February 22, 2022 LVIC made a permanent capital contribution of £25,000,000 to the Company, via Highway Insurance Group, the immediate parent company.

In February three named storms impacted the UK in the space of a week, Dudley, Eunice and Franklin. Storm Eunice brought major weather impacts, with a red warning for wind covering south-east England for the first time. The claims caused by these events are not as severe as initially feared and we expect the impact to be approximately £4m gross of reinsurance (£2m net) in excess of the planned Q1 2022 weather allowance.

Following the escalation of events in Ukraine, the widespread uncertainty has led to an increase in credit spreads on fixed income securities. As a consequence, the Company has recorded unrealised losses to its investment portfolio as at March 31, 2022 of around £30m. The Company does not anticipate that there is any significant risk that coupon and capital repayments will not be received as they fall due.

3. Business review and developments

(g) Key performance indicators ('KPIs')

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

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

KPI	2021	2020	Comments
Premiums written	£415.7m	£411.1m	Conditions have remained highly competitive, however, overall the Company saw an increase of 1% of premium written on a continuing basis.
Underwriting loss ratio	71.3%	76.1%	The overall reported loss ratio has improved despite gross claims increasing mainly due to a change in the calculation method for the new quota share arrangement for reinsurance.
Expense ratio *	41.5%	30.8%	The expense ratio has increased, primarily attributable to significant integration costs in relation to the transfer of the Fairmead home business and the integration of IT systems with Allianz.
Combined ratio	112.8%	106.9%	An overall combined ratio of 112.8% has deteriorated, being driven by the increase in the expense ratio.
Investment return	£7.9m	£19.7m	Overall investment returns for 2021 were lower than 2020, primarily due to a £10m one off realised gain in 2020 as the investment portfolio was transitioned to a new strategic asset allocation under the new fund managers PIMCO, an Allianz SE Group company.
Net assets	£212.2m	£250.4m	Net assets have reduced from 2020, reflecting the losses in 2021.

* Expense ratio includes amortisation of intangibles, investment management costs, ancillary income derived from the sale of principal products.

- *Underwriting loss ratio - Calculated as: Net insurance claims / Net premium revenue*
- *Expense ratio - Calculated as: Other income less other operating and admin expense / Net premium revenue*
- *Combined ratio - This is the combination of the underwriting loss ratio and the Expense ratio*

The Company also uses a range of non-financial KPIs, which are disclosed and managed by Allianz.

SECTION 172 REPORT

This statement sets out how the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duties. The Directors consider, both individually and collectively, they have acted in a way that, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the year.

The Board is collectively responsible for the long-term success of the Company. The Company's Board is responsible for setting the Company's strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company's purpose, strategy, culture values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

The Board of the Company meets at least quarterly alongside the board of directors of its intermediate shareholder, LVIC, the Board of LVGIG, the Board of AZH and other key regulated entities and holding companies within the Group (collectively, the "Boards"). The Boards have adopted the same terms of reference, by which they operate, and the Directors of the Boards are the same. The governance framework applied to the key regulated entities and holding companies within the Group and the combined approach to governance, ensures that the Company's Board also has regard to the overall strategy, interests and direction of the Group as a whole and the overall strategy of Allianz Personal when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of the Group, the environment in which the Company and the Group operate and the long-term success of the Company and the Group as a whole.

The Board receives information from across the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. Information is also presented, where relevant, regarding any impact on the Company or Group's reputation, impact on the environment or impact on the communities in which the Company or Group operate and other matters set out in section 172 of the Companies Act 2006.

The Board has undertaken a review of its effectiveness during the year and is in the process of carrying out actions to further improve Board governance arrangements.

Stakeholders

This section of the Company's report explains the Company's engagement activities in relation to its customers, suppliers and other stakeholders relevant to the Company.

The Board and individual directors engage with some stakeholders directly on specific issues which are relevant to the Company. However, due to the size of the Group and how it operates, stakeholder engagement more regularly takes place at an operational level. This allows the Group to be responsive to stakeholder needs. As described above, the Company's Board receives reports when making decisions and these reports include information about how stakeholder interests have been considered. This provides the Board with an overview of stakeholder interests when making decisions even where they have not engaged directly with those stakeholders themselves.

Customers

Customer centricity is fundamental to the LVGIG Group business strategy "putting our people first and our customers at the heart of what we do".

The Company's focus is on maintaining high levels of service to and supporting our customers. At the beginning of 2021, as the country faced another lockdown, the Company and its employees continued to support customers, suppliers and communities through what continued to be a difficult time for many.

SECTION 172 REPORT (continued)

Customers (continued)

A number of initiatives set up in 2020 continued through 2021 to support customers, including the Green Heart Fund, where funds were set aside to enable refunds to car insurance customers who were struggling financially and needed our support the most. Administration and cancellation fees were also waived, payment holidays made available across a number of products and free enhancements to policies were provided to customers who worked for the NHS or were key workers.

LV= was recognised by Which? as Insurance Provider of the Year 2021 and as a recommended provider for Car, Home and Breakdown.

A key method of engaging with our customers across our business is the Top Down Net Promoter Score (TDNPS). The TDNPS is an important indicator that our customer centric culture is embedded within the organisation. We ask our customers and those of our competitors for honest and anonymous feedback and then benchmark the results. During 2021 customer satisfaction measures remained strong within the Allianz Personal businesses with our underlying TDNPS score on LVGIG which represents the customers of the Company and its subsidiaries (excluding Fairmead) at 76% (2020: 72%). These results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions.

In addition, on a day to day basis our customer-facing people engage with and foster relationships with our customers directly. Direct and indirect feedback received from customers is collated and reviewed, together with other data such as complaints and number of complaints referred to and upheld by the Financial Ombudsman Service. This information is fed back to the Board for its consideration.

During 2020 the Group Board established a Customer and Conduct Committee which is responsible for overseeing customer conduct for the Group, including the Company. The Customer and Conduct Committee receives reports on a variety of matters including reports from the HICO business, including customer dashboards and metrics which help the Board to understand the customer experience. The Customer and Conduct Committee has considered a number of topics and projects during the year, focusing on the customer impacts and journey and ensuring that customers are put first. The Customer and Conduct Committee reports into the Boards on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into decision making.

In addition, during 2021, the Board engaged an independent third party to undertake a review of culture across the Allianz Group, including, amongst other things, how the culture supports the delivery of good customer outcomes. The Board reviewed the findings and actions were put in place to ensure the Board continues to receive relevant and useful information in relation to culture. A key focus is the development of a meaningful culture dashboard and scorecard to help the Board better monitor culture, including metrics to measure customer outcomes.

Employees

The Company does not employ any staff. During the year, LVGIG, and Allianz Management Services Limited (‘AMSL’), both subsidiaries of AZH, provided administration services and staff to the Company and to other Allianz Group companies. LVGIG and AMSL have a high level of resources and expertise which benefit the Company and the Group. Operationally, since the restructure, employee engagement is led by the Chief Human Resources Officer of the Group, with the Human Resources team working directly with the business divisions of Allianz Commercial and Allianz Personal. The approach taken across the Group to employee engagement is explained below; however there are some variances in methods used across Allianz Commercial and Allianz Personal, where appropriate or required.

SECTION 172 REPORT (continued)

Employee Engagement

Engaged people are key to the success of the business, not only do they create positive experiences for our customers and colleagues but they help our business thrive. Each year Allianz invites our people to complete a confidential survey to provide feedback. It remains a key priority to ensure that employees are fully engaged as the Group continues to develop during 2022.

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods include the Allianz Engagement Survey ("AES") and additional 'pulse' surveys sent to employees on various topics, town hall presentations (which have been virtual following the impact of COVID-19), newsletters via the employee intranets.

At the end of 2021, the first townhall with Colm Holmes, the new CEO of the Group, was held for employees. This was a chance for employees to 'meet' Colm Holmes virtually and learn more about his vision for the Group as a whole. These townhalls have continued into 2022, with other senior executives (including the CEO of Allianz Personal) invited to join Colm to discuss important topics and answer questions raised by employees.

Within Allianz Personal, communication with our people is a key focus with various engagement activities undertaken throughout the year supported by our intranet which contains regular updates for our people. The Allianz Personal Executive Committee conduct monthly webinars with the leadership team to share the Allianz Personal strategy and to provide updates on particular topical items of interest. Throughout 2021 as the impacts on day to day working arrangements as a result of the COVID-19 pandemic continued, regular meetings were held with the Senior Leadership team who cascaded updates to all our people. Each year there are a number of leadership conference meetings to further share important messages and facilitate discussion and debate. These messages are then cascaded throughout the organisation. Within Allianz Commercial, there are regular 'employee broadcast calls' for employees working within that business (including central services) led by the Allianz Commercial Executive Committee members, where employees are encouraged to ask questions directly to key speakers.

As some of our people return to the office under the new 'ways of working' including hybrid working, this will provide opportunities for more engagement between the Directors and employees. It is envisioned that in 2022 the Boards will hold the Board meetings at different office locations in the UK to facilitate more engagement with employees across the Group.

During 2021 employees took part in the annual AES. The AES is a valuable employee feedback platform and an indicator of the Group's corporate culture and levels of employee engagement. The AES results include the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus which is used to measure the quality of the work environment, practices and opportunities.

Inclusive Meritocracy is Allianz's target culture and can be described by three principles:
1) people and performance matter in a culture of inclusive meritocracy;
2) the 'what' and the 'how' count and define individual performance at Allianz;
3) people attributes set the aspiration for how each employee should act.

SECTION 172 REPORT (continued)

Employee Engagement (continued)

The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES. The AES results are collated to give a Group-wide result and also broken down by division (such as focusing on engagement within each division, by lines of business and by team). The survey results are shared with the Group Board and the Company's Board and action plans are developed based on the feedback received within teams. The Allianz Personal Executive Committee also review the results for employees of LVGIG. The results of the survey are directly linked to the performance objectives of the AZH Executive Committee and key leaders within the Group, which includes senior leadership of the Allianz Personal businesses. This approach ensures that people, matters of importance to them and the impact of decisions on the workforce are actively considered by the Board and the leadership team when making decisions. In 2022, LVGIG received a silver award from Stonewall's Workplace Equality Index, for its commitment and efforts to become an LGBTQ+ employer. Stonewall is the world's second-largest LGBTQ+ charity.

Our People and Culture

Creating a diverse and inclusive culture remains at the heart of Allianz's strategy for the future. We have several initiatives to help achieve gender balance at all levels and are pleased to have made further positive changes throughout this year. We want employees to feel proud to work for the Group, with policies and strategies that show how we respect and value individuality.

Flexible working

We understand the importance of continuing to have flexible working options available to all of our employees, as we return to our offices following the pandemic. To make sure that we are evolving our approach and to keep encouraging talent to join the business, we have set up a working group to foster a flexible working culture. Our aim is to encourage more uptake in flexible working options, especially amongst men who currently only make up a small proportion of those benefiting from flexible working patterns.

Reward and recognition

We are committed to making sure our people are rewarded fairly through regular review of our pay levels to ensure they are competitive with market rates. We pay all our employees at least the Living Wage Foundation rates of pay. In addition to basic pay, all our employees participate in an incentive scheme which is structured around both individual and business performance. LVGIG employees automatically become members of the money purchase pension scheme, My LVGIG Savings Plan, when they start working for us. We understand that the needs of our employees are different, so through our flexible benefits platform we give all employees the opportunity to select the benefits most suited to their individual needs and lifestyles.

Wellbeing

We understand the importance of our people's wellbeing particularly in the current circumstances where employees are being asked to adapt to new work-life balances. We already had many initiatives in place through our wellbeing support programme. We have increased the number of Mental Health First Aiders (MHFA's) to provide in person or virtual assistance to all employees on a confidential basis in their time of need to prevent as well as react to situations. The LVGIG Wellbeing programme has been running weekly webinars and awareness campaigns covering a variety of topics including Burnout, Stress, Breathing, Meditation and Sleep. The programme has also been extended to include champions and MHFA's from the Diversity and Inclusion employee networks to support the reach to employees from different communities or with particular characteristics. In addition, all employees have free access to the Headspace app which provides a range of support through articles, news, applications and techniques to support their wellbeing and mental health.

SECTION 172 REPORT (continued)

Suppliers

Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Board following initial meetings and negotiations by procurement and commercial teams, and direct engagement with senior management. In 2021, supplier contracts supported by summary documents were provided to the Board to enable an informed decision to be made covering areas such as cost, risk and key clauses. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement via the Local Procurement Standard. As a consequence, in 2021, the Group Board gave due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements including but not limited to areas such as information security, data privacy, risk, protection and resilience. This ensures a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Group Executive Committee assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. Regular reports on supplier performance, inclusive of risks and issues, were made available to the Board in the course of 2021 to ensure oversight of the critical suppliers.

The Supplier Relationship Management team has been set up in procurement specifically to assist teams across the Group with the management of supplier relationships by creating a framework of best practice controls and governance, and by supporting the business in managing significant supplier relationships and driving value throughout the life of supplier contracts. The team works in conjunction with our safeguarding functions such as Protection and Resilience, Information Security and Data Privacy.

This ensures continued protection and continuity of services for our customers. The collaboration ensures we are able to effectively manage supply chain risks such as Brexit and COVID-19. In addition, relationships are built with suppliers at an operational level with senior management fostering partnerships and relationships with insurance aggregators, brokers, reinsurers and suppliers of the Group. These relationships are managed on a day to day basis by various relationship teams, having daily contact with key suppliers and Brokers. Feedback is monitored through the Broker NPS, renewal rates, supplier feedback and the willingness of suppliers to do business with the Group.

During the year, Allianz went to great lengths to support its suppliers and communities through what was undoubtedly a difficult time for many. Examples include improved payment terms with the claims supply chain to support cashflow, some fixed fee services paid on instruction as opposed to at the end of a claim, contribution to PPE costs on a temporary basis, additional focus on resolving aged debt issues and additional engagement with suppliers to discuss the impacts of the pandemic.

Regulators

Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition, the Group Board carefully considers and takes into account any letters received by the Group from the regulators. In 2021, the Board has considered the Periodic Summary Meeting (PSM) letter from the Prudential Regulation Authority and received regular updates on progress in relation to findings from the regulator. This has informed the planned focus areas of the supervisory engagement throughout the year. The Board also had oversight of the plan of action arising from the Financial Conduct Authority's Firm Evaluation Letter received by the Company during the year. The Board's executive and non-executive directors have regular direct contact both through written correspondence and direct dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the Group Board and the Company's Board, as relevant.

SECTION 172 REPORT (continued)

Regulators (continued)

Other engagement methods with regulators include regular meetings and responding to regulatory market consultations and reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Group Board or subsidiary Board, as appropriate. This ensures that regulatory matters are of key importance with a top-down approach led by the Group Board. More information on the Board's decision-making in relation to the FCA General Insurance Pricing Practices policy implementation is included below under principal decisions.

Shareholder

The Company has regard to the interests of its immediate shareholder, LVIC, and also to LVGIG, AZH and the wider Allianz SE Group when making decisions. The Company's strategy is aligned with the AZH strategy and the Allianz SE strategy, adapted as necessary for the Company's markets. Allianz SE nominate a non-executive Director to the Board of the Company. In 2021, the Board received regular updates from the Allianz SE Group on key matters being considered within the wider group. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments.

Following the resignation of the previous Allianz SE nominated non-executive Director at the end of 2020, a new Allianz SE representative non-executive Director, C G Townsend, was nominated and was formally appointed on 29 April 2021, following regulatory approval. The approach taken ensures that the Company is aligned with and takes into account the views of the ultimate shareholder, Allianz SE, when making decisions, while also remaining independent from the ultimate shareholder.

Community and the Environment

An Environmental, Social, Governance strategy ("ESG") ensures Allianz is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. Allianz focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of our business. Allianz, including the Company, has undertaken its own initiatives during the year in the area of ESG. The Board has also reviewed the ESG strategy, analysing the Global Allianz strategy in relation to ESG and reviewing how that strategy is implemented in the UK. Allianz is fully committed to environmental, social and governance principles and consideration of our impact in these areas is an important part of Company and Group Board discussions.

LVGIG undertakes its own initiatives in its communities, which complement the activities of the Group. LVGIG's partnership with the England and Wales Cricket Board (ECB) provides financial support through #Funds4Runs to help local clubs and communities get back on their feet and support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket. During 2021, LV= committed to donating £100,000 for this programme. During the year, the Board considered the ESG 2025 plan and 2021 objectives for each area working on ESG including the opportunities and risks climate change poses.

BOARD DECISION-MAKING

This part of the section 172 statement describes how the Board has had regard to the Company's stakeholders and other matters to be considered under section 172(1) of the Act in some of the key decisions taken by the Board during the year. The Board continues to review its processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact the Company's key stakeholder groups.

During 2020 and continuing into 2021, new reporting templates have been developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder considerations are properly incorporated into all Board reports. This included providing training sessions on writing Board papers to key contributors to the Board packs. The Board also undertook a review of its effectiveness during 2021, which included consideration of its decision-making processes, Board papers and overall governance.

During the year the Directors took the following principal decisions:

FCA GENERAL INSURANCE PRICING PRACTICES POLICY IMPLEMENTATION

***Section 172 considerations**: maintaining a reputation for high standards, fostering relationships with customers and suppliers*
***Stakeholders**: customers, regulators*

Following on from the external review of pricing strategy and practices conducted during 2020, the Board continued to oversee the implementation of the recommendations from the external review and the implementation of the FCA General Insurance Pricing Practices Policy ('GIPP') during 2021. The Board continued to have oversight of this critical area for the Company, in light of their duties to consider the long-term success of the Company, to ensure compliance with the new rules by the implementation deadline of 1 January 2022. The Customer & Conduct Committee and the Board reviewed the potential customer impacts and the communications approach, which was based on customer research and feedback. The Customer & Conduct Committee reviewed the customer journey for a customer renewing their policy once the new rules came into effect and were satisfied that the impact on customers had been carefully considered throughout the project. The Board considered the strategy in light of the implications of the new rules as well as the strengths of the business. In the context of the new rules, the Board also reviewed the continuing processes being undertaken by the business to assess the fairness of the value of products to customers.

INTEGRATION OF THE FAIRMEAD INSURANCE LIMITED GROUP

***Section 172 considerations**: interests of employees, fostering relationships with customers and suppliers, maintaining a reputation for high standards, likely consequences of any decision in the long-term*
***Stakeholders**: employees, customers*

The integration of the Fairmead business (acquired on December 31, 2019) continued to be an important strategic project for the Company and the Board. The project continues to be an important part of the long-term strategy and diversification of the AZH Group, and as such the Board has considered the long-term consequences and impact on various stakeholders, including employees, suppliers and customers of decisions made in this long-term project. During 2021, the Board received regular updates on strategy and progress overall, including review of impacts on employees within the business and how the integration was being managed from an employee perspective. The Risk Committee received regular updates focusing on key risks to the project. The Customer & Conduct Committee reviewed the customer impacts as the project progressed and undertook a review of customer journeys, including considering the experience of vulnerable customers. Specific metrics on customer migration were reviewed to understand potential impacts on customers and how these were being managed. The Board through reports from its committees and its own oversight was keen to ensure that customers and employees transferring from the Fairmead business were treated fairly and their interests taken into account.

OPERATIONAL RESILIENCE

Section 172 considerations*: maintaining a reputation for high standards, consequences of decisions in the long-term*
Stakeholders: *customers, regulator*

During the year the Board reviewed and provided input into the operational resilience project, to ensure compliance with two new regulatory policies on Operational Resilience, issued jointly by the PRA and FCA. Implementing the policies on Operational Resilience in the right way for the business and its stakeholders is critical to the success of the Company and important in maintaining the Company's reputation for high standards and putting customers at the heart of the business. The Board and the Customer and Conduct Committee (CCC) reviewed the Important Business Services identified by the business, which were the services which could cause intolerable levels of harm to customers, other stakeholders or the stability of the sector or viability of the firm where such services were disrupted. The Board and CCC then reviewed the customer impact tolerances established by the business which sets levels beyond which point the Company determines that its customers could suffer 'intolerable harm'. The Board and its Committees considered definitions used by the business to determine what is intolerable, in relation to customers, and agreed how much was acceptable in the event of disruption to an Important Business Service until it would cause intolerable harm. The Risk Committee discussed the overall project, including the broader risks. The Customer & Conduct Committee undertook a review with a specific lens on the impact on customers, including vulnerable customers. These reviews were then discussed further by the Board. In making the decision whether to approve the Impact Tolerances agreed within the business, matters considered by the Board and its Committees included the definitions used by the business to determine what is intolerable, particularly in relation to customers. In addition, the Board considered the impact on vulnerable customers and how such customers had been considered when determining the Impact Tolerances. The project is ongoing and will continue to be overseen by the Board through the course of 2022.

REDEMPTION OF LOAN NOTES

Section 172 considerations: *long term success of the Company, employees*
Stakeholders: *employees, shareholder, regulator*

In November, the Board considered the early redemption of its floating rate subordinated loan notes ("Loan Notes"). The Board considered the impact on the Company's solvency ratio and the interest costs which would be saved. It was noted that it would be beneficial to seek further capital investment from the Company's shareholder, in the future, in place of the Loan Notes. The administration costs and time taken by employees in servicing the Loan Notes both now and in the future was also taken into consideration, including should the Loan Notes be split into smaller portions in future. After considering the information presented and taking into account the regulatory considerations and other stakeholders, the Board approved in principle the proposal to redeem the Loan Notes**.**

By order of the Board

F K Dyson
Director

April 11, 2022

Mandatory Streamlined Energy and Carbon Reporting (SECR)

The Company fulfils the statutory requirements for Streamlined Energy and Carbon Reporting which includes disclosure of the Company's carbon emissions. Under the Companies Act 2006 / SECR Regulations, 'Large' companies' are required to report their annual emissions in their Directors' report.

The Company's Streamlined Energy and Carbon Reporting statement covers the reporting period 1 January 2021 – 31 December 2021 and has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.

A 'Dual Reporting' methodology has been used to indicate emissions using UK electricity grid average emission factors (known as the 'Location Based' method), and also emissions using supplier specific generation emission factors (the 'Market Based' method).

'Location Based' Method

The total energy consumption for 2021 was 7,558,823.81 kWh (2020: 6,502,491.91 kWh) equating to 1,626.702 tCO_2e (2020: 1,469.501 tCO2e)

Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during 2021 was 0.393 tCO_2e (2020: 0.34 tCO2e)

However, the Company strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (REGO) certificates. Through this strategy, within the above 2021 total energy consumption, the Company has sourced a total of 2,787,226.73 kWh of REGO backed (zero emission) electricity equating to 83.58% of total electricity use.

'Market Based' Method

The total energy consumption for 2021 was 7,558,823.81 kWh (2020: 6,502,491.91 kWh) equating to 1,064.100 tCO_2e (2020: 715.322 tCO2e)

Carbon intensity: Emissions of tCO2e / Full-Time Equivalent during 2021 was 0.257 tCO_2e (2020: 0.17 tCO2e)

Qualifying information on the above data:

- This statement has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.
- This is the Company's second year of Streamlined Energy and Carbon Reporting and as such 01/01/2020 - 31/12/2020 data has been recorded.
- tCO2e is the tonnage of equivalent carbon emissions generated by the various greenhouse gasses (carbon dioxide, methane, nitrous oxide etc.) each of which has a 'Global Warming Potential' factor that is included in the above emission figure.
- An operational control approach has been applied to consolidate the above data.
- Total Full-Time Equivalent for use as the Metric are 4135.

1. As per GHG Protocol Scope 2, a dual method has been applied - 'location based' & 'market based'. This method of emission calculation for electricity uses both the UK Government Grid Average Emissions Conversion Factors (dated 2021) and supplier specific conversion factors relevant to the generation.

2. Carbon intensity includes all Scope emissions in the calculation.

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:

- Customers, suppliers and others statement
- Results for the year;
- Principal activities of the Company; and
- Business review and Future prospects.

Stakeholder engagement

Details of how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the section 172 statement on page 10 to page 17 of the Strategic Report.

Directors and their interests

The Directors of the Company who were in office during the year are shown on page 3.

R O Hudson and J M Dye resigned as Directors of the Company with effect from May 14, 2021 and November 30, 2021 respectively. C G Townsend and P J Evans were appointed as Directors of the Company with effect from April 29, 2021 and May 14, 2021 respectively.

On December 1, 2021, C Holmes joined the business as Group CEO. On February 22, 2022 he was formally appointed as a Director of the Company.

On February 22, 2022, S C McGinn was appointed as a Director of the Company.

Results and Dividends

The results for the year are set out in the Strategic Report on page 4.

No interim dividends were approved by the Directors during the year ended December 31, 2021 (2020: £nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended December 31, 2021 (2020: £nil).

Financial Instruments

The Company's policies in respect of financial instruments are given in note 2 to the Financial Statements.

Going concern

We are confident in the Company's ability to continue as a going concern. The business is well placed in managing the principal risks and uncertainties, has a strong financial and capital position and in addition, is owned by one of the largest property and casualty insurers in the world.

One.Finance

In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 "Financial instruments" and IFRS 17 "Insurance contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Company has established parallel work streams in the UK supporting the overall Allianz SE Group project and to ensure local readiness. Conclusion of the project has been deferred to ensure alignment with the implementation date of IFRS 9 and IFRS 17, namely January 1, 2023. However readiness is expected within 2022, with parallel runs already completed for 2020 and 2021 in preparation.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

Auditors

Pursuant to section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been re-appointed as auditors at the end of 28 days beginning with the day on which copies of these report and financial statements are sent to Members.

By order of the Board

C Twemlow
Secretary

April 11, 2022

Statement of directors’ responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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

Report on the audit of the financial statements

Opinion

In our opinion, Highway Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 13, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed a full scope audit of the financial statements of the company in accordance with our risk assessment and materiality. In doing so, we also considered qualitative and quantitative factors across all financial statements line items in the financial statements.

Key audit matters

- Valuation of gross general insurance claims liabilities

Materiality

- Overall materiality: £3,800k (2020: £3,720k) based on the amount that would change the Combined Operating Ratio ('COR') by more than 1% excluding the effect of the internal quota share contract.
- Performance materiality: £2,800k (2020: £2,790k).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The 'Impact of COVID-19', which was a key audit matter last year, is no longer included because of the reduction in the level of social and economic disruption COVID-19 had compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of gross general insurance claims liabilities Refer to Note 2 for the accounting policies, and Notes 3 and 26 for disclosure of the related judgement and estimates. The company financial statements include liabilities for the estimated cost of settling insurance claims. These are included within the insurance contract liabilities. This key audit matter is focussed on the subjectivity of the assumptions used by management in the calculation of claims incurred but not reported (£21,348k) and PPO reserves (£61,889k) which is included within insurance claims liabilities.	In performing our audit over the general insurance claims liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: ● Developing independent point estimates for classes of business considered to be higher risk, particularly focussing on the largest and most uncertain estimates, with data as at 31 August 2021 and performing roll-forward procedures to December 31, 2021. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our

This is a significant accounting estimate in the financial statements and involves a significant degree of judgement. Key areas of focus this year were: ● The underlying volatility attached to estimates for the larger classes of business, such as personal motor and property business. For these lines of business, small changes in assumptions can lead to large changes in the level of the estimate held and the combined operating ratio. ● The methodologies and assumptions used in estimating the costs of claims for general insurance products (including motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large. ● The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are based on cashflow techniques rather than standard triangulation projections. While this risk is predominantly focused on under-reserving, we also considered whether excessive levels of prudence exist within management's booked insurance claims liabilities.	determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate. ● For selected high and medium risk lines we examined the methodologies and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates against select metrics based on the company's facts and circumstances. For lower risk classes, analytical procedures were performed. ● Evaluated management's reserve uncertainty assessment. ● Obtained and reviewed reporting presented by management's actuarial team to wider management, which includes detailed reviews of key areas of uncertainty. In performing the above, we have also considered and tested the following: ● Tested the underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. ● The directors' assessment of estimation uncertainty. ● Considered whether any of our audit procedures gave rise to an indication of management bias. ● External factors that could have an impact on claims reporting and settlement, such as COVID-19, macroeconomic inflation, and the whiplash legal reforms. ● Assessed the disclosures in the financial statements. Based on the work performed and evidence obtained, we consider the valuation of gross general insurance claims liabilities to be appropriate.

How we tailored the audit scope

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

The company is a UK domiciled insurer. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, the internal control environment and management's process for the preparation of the financial statements. We applied our materiality benchmark across each financial statement line item to identify which items were significant to the audit of the company.

Materiality

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

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

Overall company materiality	£3,800k (2020: £3,720k).
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by more than 1% excluding the effect of the internal quota share contract.
Rationale for benchmark applied	We consider the COR as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of the business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how management view the performance of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £2,800k (2020: £2,790k) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £190k (2020: £186k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Evaluating management's solvency scenario analysis and challenging management's key assumptions. We considered the governance over the production of this information and its consistency with other available information and our understanding of the business. We performed testing on the company's Solvency Capital Requirement, Risk Margin and Own Funds;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Assessing the disclosures made by management in the financial statements and checking the consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Discussing with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- Testing significant accounting estimates and judgements, such as general insurance claims liabilities, as included in the key audit matters section above;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors in 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2009 to 31 December 2021.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2022

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

CONTINUING OPERATIONS	Note	**2021** £000	2020 £000
Insurance contract premium revenue	5	**409,981**	392,805
Insurance contract premium ceded to reinsurers	5	**(177,721)**	(94,626)
Net premium revenue		**232,260**	298,179
Investment income	6	**5,905**	8,270
Net gains on investments	7	**2,024**	11,695
Other income	8	**1,729**	5,191
Total income		**241,918**	323,335
Insurance claims and loss adjustment expenses	9	**(344,294)**	(315,936)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	**178,737**	89,124
Net insurance claims		**(165,557)**	(226,812)
Finance costs	10	**(527)**	(354)
Other operating and administrative expenses	11	**(98,026)**	(96,909)
Total claims and expenses		**(264,110)**	(324,075)
Loss before tax		**(22,192)**	(740)
Income tax credit	15	**5,148**	121
Loss for the year from continuing operations		**(17,044)**	(619)
Loss for the year from discontinued operations	12	**(3,183)**	(945)
Loss for the year attributable to owners of the parent		**(20,227)**	(1,564)
Other Comprehensive (expense)/income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	34	**(20,545)**	21,757
Change in fair value of available for sale financial assets transferred to profit or loss	34	**(2,203)**	(12,829)
Income tax relating to these items	34	**4,809**	(1,811)
Other comprehensive (expense)/income for the year, net of tax		**(17,939)**	7,117
Total comprehensive (expense)/income for the year		**(38,166)**	5,553

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

The notes on pages 33 to 77 are an integral part of the financial statements.

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

		Attributable to equity holder of the Company				
		Share capital	**Available -for-sale reserve**	**Retained earnings**	**Capital reserve**	**Total Equity**
	Note	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at January 1, 2021		**75,000**	**11,849**	**57,154**	**106,400**	**250,403**
Loss for the year	33	-	-	(20,227)	-	**(20,227)**
Items that may be reclassified to profit or loss						
Fair value losses on AFS investments	34	-	(20,545)	-	-	**(20,545)**
Tax on these items	34	-	4,343	-	-	**4,343**
Items reclassified to profit or loss						
Losses on AFS investments	34	-	(2,203)	-	-	**(2,203)**
Tax on these items	34	-	466	-	-	**466**
Total comprehensive expense for the year		**-**	**(17,939)**	**(20,227)**	**-**	**(38,166)**
Balance at December 31, 2021		**75,000**	**(6,090)**	**36,927**	**106,400**	**212,237**

		Attributable to equity holder of the Company				
		Share capital	Available-for-sale reserve	Retained earnings	Capital reserve	Total Equity
	Note	£000	£000	£000	£000	£000
Balance at January 1, 2020		75,000	4,732	58,718	106,400	244,850
Loss for the year	33	-	-	(1,564)	-	(1,564)
Fair value gains on AFS investments		-	21,757	-	-	21,757
Tax on these items		-	(4,134)	-	-	(4,134)
Losses on AFS investments		-	(12,829)	-	-	(12,829)
Tax on these items		-	2,323	-	-	2,323
Total comprehensive income for the year		-	7,117	(1,564)	-	5,553
Balance at December 31, 2020		75,000	11,849	57,154	106,400	250,403

The notes on pages 33 to 77 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Assets			
Intangible assets	16	**2,975**	750
Deferred tax asset	17	**2,096**	62
Current tax asset	18	**3,964**	1,028
Prepayments and accrued income	19	**8,878**	8,511
Deferred acquisition costs	20	**43,861**	34,713
Financial assets			
- Available for sale financial assets	21	**683,876**	713,588
Other receivables	22	**44,797**	30,012
Reinsurance assets	23	**392,488**	212,402
Insurance receivables	24	**71,452**	50,436
Cash and cash equivalents (excluding bank overdrafts)	25	**10,591**	17,847
Total assets		**1,264,978**	1,069,349
Liabilities			
Insurance Contract Liabilities	26	**862,481**	771,141
Reinsurers' Share of deferred acquisition costs	20	**17,746**	-
Deferred tax liability	17	**-**	2,780
Other financial liabilities	27	**10,075**	10,741
Insurance payables	28	**4,691**	5,627
Funds withheld to reinsurers'	29	**132,632**	-
Trade and other payables	30	**25,116**	28,657
Total liabilities		**1,052,741**	818,946
Equity			
Share capital	31	**75,000**	75,000
Capital reserve	32	**106,400**	106,400
Available-for-sale reserve	34	**(6,090)**	11,849
Retained earnings	33	**36,927**	57,154
Total equity		**212,237**	250,403
Total liabilities and equity		**1,264,978**	1,069,349

The notes on pages 33 to 77 are an integral part of the financial statements.

These financial statements on pages 29 to 77 were approved by the Board of Directors on April 6, 2022.

Signed on behalf of the Board of Directors

F K Dyson
Director
April 11, 2022

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Cash flows arising from operating activities			
Cash (used in)/generated from operations	35	**(16,486)**	18,519
Interest received		**6,143**	9,434
Income tax recovered	18	**2,954**	1,721
Net cash (used in)/generated from operating activities		**(7,389)**	29,674
Cash flows from investing activities			
Net decrease/(increase) of available for sale securities		**9,166**	(290,007)
Dividends received		**-**	238
Acquisition of intangible assets	16	**(2,364)**	-
Net cash generated from/(used in) investing activities		**6,802**	(289,769)
Cash flows from financing activities			
Finance cost paid	10	**(527)**	(354)
Net cash used in financing activities		**(527)**	(354)
Net decrease in cash and cash equivalents		**(1,114)**	(260,449)
Cash and cash equivalents at the beginning of the year	25	**11,705**	272,154
Cash and cash equivalents at the end of the year	25	**10,591**	11,705

Cash flows from discontinued operations are disclosed in note 12.

The notes on pages 33 to 77 are an integral part of the financial statements.

1. General information

The Company is a private company, limited by shares and incorporated and domiciled in England and Wales, whose shares are not publicly quoted. The Company underwrites general insurance risks, including motor risks. All contracts of insurance are written in the United Kingdom and Republic of Ireland.

2. Accounting policies

BASIS OF PRESENTATION

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Highway Insurance Company Limited transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Highway Insurance Company Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs.

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

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

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

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

These financial statements have been prepared on a continuing basis, discontinued operations are presented separately in note 12.

Going concern
We are confident in the Company's ability to continue as a going concern. The business is well placed in managing the principal risks and uncertainties, has a strong financial, trading and capital position and is owned by one of the largest property and casualty insurers in the world.

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES

Net premium revenue

General insurance premiums written reflect business coming into force during the year. Written premiums include new business premiums plus an estimate 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 ('SOFP') date. Unearned premiums are calculated based on the incidence of risk of the underlying insurance contract. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Other income

Interest receivables from insurance contracts are recognised in a manner consistent with premium income. All other fee and commission income, with the exception of reinsurance commission, is recognised as the services are provided.

Reinsurance commission

A proportionate amount of reinsurance ceded to reinsurers is paid back to the Company as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual classes of business. Commissions receivable are deferred in the same way as acquisition costs, as described in the accounting policy for Deferred Acquisition costs. All other fee and commission income is recognised as the services are provided.

Investment income

Investment income includes interest from investments, dividends and interest from Available for Sale Investments ('AFS') investments and interest on loans and receivables. Dividends are included on an ex-dividend basis. Interest on AFS debt instruments and loans and receivables is calculated using the effective interest method. Investment expenses are accounted for as incurred.

Realised gains and losses

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

Unrealised gains and losses

Unrealised gains and losses on investments at FVTPL represent the difference between the valuation of fair value assets at the Statement of Financial Position '(SOFP') date and their valuation at the last SOFP 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. Unrealised gains and losses on investments at FVTPL are recognised in the SOCI.

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the SOFP 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 SOCI in which the underlying transaction is reported.

Income tax expense
The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses and is recorded in the SOCI and 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 SOFP 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 SOFP 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.

Financial assets
The Company classifies its investments as either available for sale financial assets, or loans and receivables. All purchases and sales of financial assets are recognised on the trade date i.e. the date the Company commits to purchase or sell the asset.

All financial assets are initially recognised at fair value plus, in the case of available for sale assets and loans and other receivables, the transaction costs that are directly attributable to the acquisition of the investment. A financial asset shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale financial assets
Available for sale financial assets ('AFS'), after initial recognition, are measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the Statement of Comprehensive Income.

AFS investments include listed debt securities comprising Corporate Bonds, Government Bonds, and Supranationals. AFS investments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices.

Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the SOCI, together with interest calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity (AFS reserve) until disposal or impairment.

Impairment of financial assets
The carrying values of financial assets are reviewed at each SOFP date. If the carrying value of a Trade receivable or Loans and Other receivable is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the SOCI.

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

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

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

An impairment review is performed at the SOFP date. Impairment occurs when there is evidence that the Company will not recover outstanding amounts under the contract, such losses being recorded immediately in the SOCI.

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets
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 these intangibles is determined by reference to the 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 on a straight line basis.

Deferred acquisition costs
Commission and other acquisition costs (gross and reinsurance) incurred during the financial year that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins.

DAC are capitalised and amortised based on the incidence of risk of the underlying insurance contract. All other acquisition costs are recognised as an expense when incurred.

The DAC asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the Balance Sheet date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount, and the impairment loss is recognised immediately in the statement of comprehensive income.

Liability adequacy test
At each SOFP date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the SOCI and an unexpired risk reserve established.

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

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

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 SOCI.

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

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

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

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

2. Accounting policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SOCI within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value.

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

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

Dividend distribution
Dividends paid and payable are recognised in equity either when paid in cash or when they are appropriately authorised and are no longer at the discretion of the Company.

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

2. Accounting policies (continued)
CHANGES IN ACCOUNTING POLICIES

a) New and amended standards adopted

No new standards have been adopted by the Company for accounting periods beginning on or after January 1, 2021.

b) Unadopted standards

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

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

c) Amendments to standards

Compliance with the criteria for the temporary exemption from IFRS 9
The IFRS 4 amendment adopted in the reporting period permits insurance entities which meet the predominance ratio test to have a temporary exemption from IFRS 9 where this standard has not yet been adopted. The predominance ratio test is required to be performed at the reporting entity level, using the annual reporting date that immediately precedes April 1, 2016 (i.e. December 31, 2015). Reassessment of the predominance ratio test is required when an entity begins or ceases to perform an activity that is significant to its operations, including terminating a business line.

The predominance ratio test on an entity's insurance liabilities against its total liabilities includes two tests:

1) The carrying amount of its liabilities arising from contracts within IFRS 4's scope must be significant compared to the total carrying amount of all of its liabilities; and
2) The carrying amount of the insurer's liabilities connected with insurance compared to the total carrying amount of all of its liabilities must be above a threshold. Liabilities connected with insurance include IFRS 4 liabilities, Investment contract liabilities measured at FVTPL applying IAS 39 and other liabilities that are connected to these insurance and investment contracts.

The threshold for liabilities connected with insurance compared with total liabilities is:
- Greater than 90%, or
- Greater than 80% but less than or equal to 90% and the entity provides evidence that it does not have a significant activity that is unrelated to insurance.

The Company met the criteria to apply the temporary exemption from IFRS 9 upon initial performance of the predominance ratio test at December 31, 2015. The carrying value of liabilities within IFRS 4's scope at December 31, 2015 was significant at 96% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance. On December 29, 2017 the Company sold the renewal rights associated with its Commercial Lines business to Allianz; the Commercial Lines business was a significant component of the Company's operations and as a result the Commercial Liners results were presented as a discontinued operation in the December 31, 2017 financial statements. This transaction did not impact the predominance ratio test at December 31, 2017 as only the new business renewal rights were sold. The predominance ratio test has been reassessed at December 31, 2021. The carrying value of liabilities within IFRS 4's scope at December 31, 2021 continued to be significant at 95.9% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance.

2. Accounting policies (continued)

c) Amendments to standards (continued)

Disclosures associated with deferral of IFRS 9
In order to facilitate comparison with companies which have adopted IFRS 9, the following disclosures are included regarding the fair value and credit risk associated with financial assets. Financial assets with cash flows that are Solely payments of Principal and Interest ('SPPI') excluding those categorised as FVTPL due to either being managed on a fair value basis or held for trading, are disclosed separately from other financial assets.

The fair value at December 31, 2021 and the amount of change in the fair value during the reporting period of the Company's financial assets are as follows:

Financial assets	**Fair value at December 31, 2021**	**Fair value movement in the year**
	£000	**£000**
1) Financial assets that meet the SPPI criteria and not classified as FVTPL		
Available for sale financial assets		
Debt securities	689,333	(22,833)
Cash and cash equivalents (short-term)*	10,591	-
Total	**699,924**	**(22,833)**

Financial assets	**Fair value at December 31, 2021**	**Movement in fair value recognised in SOCI**
	£000	**£000**
2) Financial assets that fail to meet the SPPI criterion		
Available for sale financial assets		
Debt securities	570	85
Total	**570**	**85**

*The carrying amount of the financial assets measured by applying IAS39 is deemed to be a reasonable approximation of its fair value.

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

	AAA £000	**AA £000**	**A £000**	**BBB £000**	**Below BBB £000**	**Total £000**
Available for sale financial assets						
Debt securities	259,252	174,550	92,222	131,345	31,965	689,334
Cash and cash equivalents (short-term)*	-	-	10,591	-	-	10,591
Total	**259,252**	**174,550**	**102,813**	**131,345**	**31,965**	**699,925**

Note: In the case of financial assets held at amortised cost, the amounts disclosed are the carrying amounts applying IAS 39, before adjusting for any impairment allowances.

2. Accounting policies (continued)

c) Amendments to standards (continued)

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. These amendments were effective from 1 January 2021 and have no material impact on the Company.

d) New standards and interpretations not yet adopted by the Company

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 December 2021 reporting periods and have not been early adopted by the Company. Instead, the Company will apply the standards from the effective date.

None of these are expected to have a significant effect on the financial statements of the Company, except the following:

IFRS 17 Insurance Contracts

In May 2017 the IASB issued IFRS 17 and it was amended in June 2020. It will replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning on or after January 1, 2023. The Company has completed an initial parallel run of the financial results under IFRS 17 in line with the "One.Finance" project to understand the impact of these changes. The Company is now refining new and updated processes whilst working with Allianz SE to ensure alignment of accounting policies, this is expected to be complete by the end of 2022 to ensure compliance with the standard.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments – IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses ("ECL"). The Company, based on the impact assessment performed under One.Finance, will take advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2023, which will coincide with the expected implementation of IFRS 17. IFRS 9 introduces a forward looking ECL model. This requires judgement about how changes in economic factors affect ECLs which are determined on a probability weighted basis. Based on the assessment undertaken to date, no significant impact to the financial statements is anticipated in either net income or equity.

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

3. Significant accounting judgements, estimates and assumptions

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

The Company makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgements, estimations and assumptions that the Directors have made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Significant accounting estimates - Valuation of general insurance contract liabilities
For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the SOFP date and the cost of claims incurred but not yet reported ('IBNR') to the Company. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Additional techniques are deployed in order to overcome instances where this may not be the case, which includes the treatment for the COVID-19 impact on claim development. In the case of PPO's 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 SOCI in future years.

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

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

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

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

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

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

The Ogden Discount Rate (ODR) is a key driver in the valuation of the cost of care element of large injury claims. Having historically run at 2.5%, the rate moved materially over recent years, with the most recent review occurring in 2019 following the enactment of the Civil Liabilities Act, which set the rate at -0.25% for England and Wales. Rates are set independently for Scotland and Northern Ireland, which are currently -0.75% and -1.5% respectively.

Under the terms of this Act, the rate must be reviewed at least every five years, and hence the next review will occur at latest in 2024. Although it is considered unlikely that the rate will be reviewed prior to this date, given the long-tailed nature of injury claims many outstanding and incurred but not yet reported claims will not settle until after the next review occurs, and hence can be expected to settle on a different rate.

With the internal ODR tracker having been consistently around or below -1% over recent periods, there is potential for material impacts to the ultimate claims costs due to a revision to the ODR, in particular should this occur earlier than anticipated. It should also be noted that a possible change in 2024 is the introduction of a dual rate, whereby the potential impacts are far more uncertain than for a pure rate change.

Another recent source of uncertainty is the introduction of the whiplash reforms, effective from 31, May 2021 on an accident year basis, which are a package of measures designed to reduce insurance costs for ordinary motorists and tackle the continuing high number of whiplash claims. In particular, The Motor Insurers' Bureau (MIB) has developed a new online portal for managing low value personal injury claims from road traffic accident (RTA). The reforms should reduce the cost of RTA whiplash related claims.

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

Significant accounting estimate - Insurance contract liabilities (continued)
To allow for the expected impact of the whiplash reforms, assumed frequency and severity reductions have been applied to the capped personal injury projections; these reductions have been estimated by the pricing team and are monitored regularly throughout the business. There is however significant uncertainty around the level of benefit that could materialise, and these assumptions are difficult to validate due to the limited data available, particularly since the introduction of the portal could lead to increased reporting delays initially. The impacts of the reforms differing from these assumptions is therefore a key area of uncertainty.

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

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

The estimation of these claims is based on historical experience projected forward taking into consideration, our expectations of the COVID-19 impacts. Where possible, multiple techniques are adopted to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. Estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

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

Significant accounting judgement - Classification of the Company contracts with reinsurers as reinsurance contracts
A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract. Management reviews all terms and conditions of each such contract, and if necessary, where it is external to the Group (such as the Loss Portfolio Transfer) obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

4. Capital management and risk management and control

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

The Company retains capital to meet four key objectives:

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

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

Under the Solvency II regime adopted by the PRA, there are two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2021.

The Company complied with all externally imposed capital requirements that it was subject to throughout the reporting year. As at December 31, 2021, the own funds amount to £202.5m with a surplus of 26% on SCR (unaudited) (2020: own funds equal to £223.4m with a surplus of 28% on SCR).

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

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

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

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

Insurance risk

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

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

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim (2020: £5.0m per claim).

In addition to the reinsurance contracts described above, the Company has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for the 2015 and prior accident years. The Company has also historically entered into a 20% Quota Share arrangement for the 2016-2020 accident years (each year treated separately). In 2021, a 40% Quota Share arrangement was entered into for this accident year. Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the Group exposure to general insurance concentration risk.

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

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

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Home	**36,387**	**(14,683)**	**21,704**	20,037	(4,082)	15,955
Motor	**543,195**	**(268,941)**	**274,254**	452,637	(181,200)	271,437
Commercial	**70,119**	**(22,764)**	**47,355**	91,686	(26,964)	64,722
Other	**306**	**(224)**	**82**	-	-	-
	650,007	**(306,612)**	**343,395**	564,360	(212,246)	352,114

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

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

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

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

The Company's reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions, both positively and adversely. An example of such would be a change in the Ogden discount rate. This is the discount rate set by the relevant government bodies and used by courts to calculate lump sum awards in bodily injury cases. The Company's reserves are also susceptible to non-legislative uncertainty, which includes the impact of COVID-19 on claim development as well as claim frequency and severity.

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

The most significant area of uncertainty in the claims estimation at the 2021 year-end relates to the estimated ultimate cost for the 2021 accident year. This is due to the impact of the Coronavirus pandemic which has resulted in significant disruption to the notification and settlement of claims, meaning that traditional approaches of using past claims development to predict the future are less reliable.

The table below provides a sensitivity analysis of the impact of a 1% increase/reduction in the estimated ultimate cost for the 2021 accident year claims. The selection of these sensitivities should not be interpreted as a prediction.

	Increase / (Decrease) in Statement of Comprehensive Income	Increase / (Decrease) in total equity at 31 December
	2021	**2021**
	£m	**£m**
Current accident year loss ratio		
Impact of a 1% reduction in the loss ratio for the current accident year	**2.0**	**2.0**
Impact of a 1% increase in the loss ratio for the current accident year	**(2.0)**	**(2.0)**

The selection of these sensitivities should not be interpreted as a prediction.

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

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

Analysis of claims development – gross of reinsurance

Accident year	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**Total £m**
Initial estimate of gross provision	282.4	241.0	221.3	247.6	266.7	289.8	316.9	295.5	276.4	341.9	
One year later	272.9	222.1	204.9	251.5	253.4	266.0	305.2	307.5	251.5		
Two years later	266.6	222.7	198.7	236.5	240.5	258.6	321.7	329.6			
Three years later	261.2	225.7	195.8	222.1	222.7	263.3	322.6				
Four years later	261.0	227.1	189.5	223.7	225.6	263.6					
Five years later	271.2	221.2	189.2	222.1	228.8						
Six years later	264.3	222.1	188.8	220.7							
Seven years later	263.6	217.9	188.6								
Eight years later	263.7	216.7									
Nine years later	263.2										
Current estimate of cumulative claims	263.2	216.7	188.6	220.7	228.8	263.6	322.6	329.6	251.5	341.9	2,627.2
Cumulative payments to date	(246.9)	(201.8)	(185.4)	(212.5)	(218.3)	(237.8)	(242.8)	(222.6)	(163.0)	(121.7)	(2,052.8)
Liability recognised in the balance sheet for 2012 to 2021 accident years	16.3	14.9	3.2	8.2	10.5	25.8	79.8	107.0	88.5	220.2	574.4
Liability recognised in the balance sheet in respect of prior accident years											71.2
Claims handling provision											4.4
Provision as at 31 December 2021											**650.0**

Analysis of claims development – net of reinsurance

Accident year	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**Total £m**
Initial estimate of net provision	268.1	232.6	219.0	208.9	228.7	210.9	242.8	226.9	208.2	172.3	
One year later	259.7	211.1	188.7	223.4	198.3	201.9	234.8	234.4	190.1		
Two years later	255.2	202.0	190.1	204.4	190.4	198.8	240.8	244.8			
Three years later	244.7	207.1	185.9	193.0	178.1	202.9	243.7				
Four years later	242.1	204.3	177.2	194.4	180.5	203.5					
Five years later	244.2	199.4	178.2	193.1	182.8						
Six years later	243.8	200.4	177.9	191.7							
Seven years later	243.2	198.9	177.6								
Eight years later	242.7	197.9									
Nine years later	242.2										
Current estimate of cumulative claims	242.2	197.9	177.6	191.7	182.8	203.5	243.7	244.8	190.1	172.3	2,046.6
Cumulative payments to date	(237.8)	(192.6)	(175.0)	(185.1)	(174.4)	(185.0)	(191.8)	(174.3)	(134.5)	(73.5)	(1,724.0)
Liability recognised in the balance sheet for 2012 to 2021 accident years	4.4	5.3	2.6	6.6	8.4	18.5	51.9	70.5	55.6	98.8	322.6
Liability recognised in the balance sheet in respect of prior accident years											16.4
Claims handling provision											4.4
Provision as at December 31, 2021											**343.4**

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

Market risk

Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has defined policies and procedures in place to control the major components of market risk. Exposures to individual companies in aggregate are monitored by the Finance and Investment Forum (FIFo) 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.

Strategic asset allocation (SAA) is discussed at the monthly FIFo meetings, covering investment return and concentration and to agree any changes required. The SAA is approved by the Board.

Inflation risk

Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities. There are no inflation linked assets. The risk is mitigated to some extent by excess of loss and quota share reinsurance cover.

Interest rate risk

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

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

The Company manages interest rate risk by employing an 'Available for Sale' strategy, where assets are planned to be held until maturity, reducing the impact of interest rate risk on the statutory reporting profits.

Credit spread risk

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

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

The Company manages credit risk by employing an 'Available for Sale' strategy, where assets are planned to be held until maturity, reducing the impact of spread movements on the statutory reporting profits.

Equity risk

The Company had no exposure to equity risk during 2021.

Currency risk

The Company has some small amounts of currency risk relating to legacy business, but this is not considered a material risk.

Sensitivity analysis to market risks

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

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

	Impact on pbt 2021 £000	**Impact on equity 2021 £000**	Impact on pbt 2020 £000	Impact on equity 2020 £000
Interest rate risk				
+ 100 basis points shift in yield curve	**-**	**(25,254)**	-	(28,087)
- 50 basis points shift in yield curve	**-**	**13,410**	-	15,179
Credit spread risk				
100 basis points widening in all credit spreads	**-**	**(23,527)**	-	(29,279)
50 basis points tightening in all credit spreads	**-**	**12,474**	-	15,660

Given that our bonds are entirely held as Available for Sale (AFS), there is no sensitivity to the IFRS P&L to movements in interest rates and credit spreads. Movements would be reflected on the balance sheet within the AFS reserve. The sensitivity to interest rates is broadly similar, with credit spread sensitivity decreasing over the year due to a change in Strategic Asset Allocation where, on average, bond duration has reduced.

There is also sensitivity to interest and credit spread movements on the Solvency II balance sheet, which is why there remains close monitoring of these risks (although on the SII balance sheet there is an off-set with liability movements).

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

As at 31 December 2021	**Euro £000**	**Total £000**
Financial assets at fair value through profit or loss		
Reinsurers' share of insurance contract liabilities	**7,104**	**7,104**
Financial liabilities		
Insurance contracts	**(10,506)**	**(10,506)**
Other financial liabilities	**(10,075)**	**(10,075)**
Total exposure	**(13,477)**	**(13,477)**

As at 31 December 2020	Euro £000	Total £000
Financial assets at fair value through profit or loss		
Reinsurers' share of insurance contract liabilities	8,830	8,830
Insurance contracts	(11,638)	(11,638)
Financial liabilities		
Other financial liabilities	(10,741)	(10,741)
Total exposure	(13,549)	(13,549)

The sensitivity of net assets to a 10% increase/decrease in Euro exchange rates is £(1,347,700) (2020: £(1,354,900)) respectively. In determining the percentage rates to use in this sensitivity analysis the movements in the actual market rates of Euro during 2021 were taken into account. The above table incorporates all material currency risk to Profit before tax. Therefore, a 10% increase/decrease across the Euro currency could impact profit before tax by up to £(1,347,700) (2020: £(1,354,900)).

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

Credit Counterparty risk

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company’s credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at December 31, 2021 was £50,076,000 (2020: £41,076,000), all of which was not rated.

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

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

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

Credit Counterparty risk

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

	AAA	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Credit risk exposure 2021	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Available for sale financial assets							
- Debt and other fixed income securities	**257,316**	**173,820**	**91,265**	**129,889**	**31,586**	**-**	**683,876**
Cash and cash equivalents	**-**	**-**	**10,591**	**-**	**-**	**-**	**10,591**
Insurance receivables	**-**	**21,184**	**191**	**-**	**-**	**50,077**	**71,452**
Other receivables	**-**	**40,279**	**-**	**-**	**-**	**4,518**	**44,797**
Reinsurance assets	**-**	**335,432**	**57,056**	**-**	**-**	**-**	**392,488**
Total exposure	**257,316**	**570,715**	**159,103**	**129,889**	**31,586**	**54,595**	**1,203,204**

	AAA	AA	A	BBB	Below BBB	Not rated	Restated Total
Credit risk exposure 2020	£000	£000	£000	£000	£000	£000	£000
Available for sale financial assets							
- Shares, other variable yield securities and units in unit trusts*	-	-	-	-	-	36,738	36,738
- Debt and other fixed income securities	261,885	159,253	93,278	131,755	30,679	-	676,850
Cash and cash equivalents	-	-	17,847	-	-	-	17,847
Insurance receivables	-	9,360	-	-	-	41,076	50,436
Other receivables	-	29,322	-	-	-	(136)	29,186
Reinsurance assets	-	166,567	45,156	-	-	679	212,402
Total exposure	261,885	364,502	156,281	131,755	30,679	78,357	1,023,459

*Shares, other variable yield securities and units in unit trusts were omitted from the prior year credit risk exposure disclosure. The correct position has been restated above. This has no impact on the prior year audited accounts.

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

Offsetting financial assets and financial liabilities
Financial assets and liabilities are offset in the SOFP when the Company intends to apply a current legally enforceable right to offset.

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 IFRS7 and are set off in the SOFP.

As at December 31, 2021		**Amounts off set**	
	Gross assets	**Gross liabilities offset**	**Net amounts presented**
	£000	**£000**	**£000**
Financial assets			
Cash and cash equivalents	**5,176**	**(929)**	**4,247**
Total	**5,176**	**(929)**	**4,247**

As at December 31, 2020		Amounts off set	
	Gross assets off set	Gross liabilities	Net amounts presented
	£000	£000	£000
Financial liabilities			
Bank overdrafts	12,418	(18,560)	(6,142)
Total	12,418	(18,560)	(6,142)

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

The Company reviews the carrying value of its financial assets at each SOFP date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the SOCI. As at December 31, 2021 £219,000 (2020: £274,000) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The table below shows the age analysis of the Company's financial assets, together with the extent to which they are due, overdue and/or impaired.

Age analysis of assets past due/impaired 2021	**<31 days**	**31 to 60 days**	**61 to 90 days**	**>90 days**	**Total past due but not impaired**	**Past due and impaired**	**Neither past due nor impaired**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance receivables	**2,195**	**305**	**86**	**218**	**2,804**	**219**	**68,429**	**71,452**
Other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**44,797**	**44,797**

Age analysis of assets past due/impaired 2020	<31 days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Neither past due nor impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	728	395	65	134	1,322	274	48,840	50,436
Other receivables	-	-	-	-	-	-	29,186	29,186

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

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

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

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

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

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

		2021			2020	
Maturity profile of financial assets	**Within 1 year**	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£000	**£000**	**£000**	£000	£000	£000
Financial Assets						
Available for sale financial assets						
- Shares, other variable yield securities and units in unit trust	**-**	**-**	**-**	-	36,738	36,738
- Debt securities	**52,043**	**631,833**	**683,876**	23,415	653,435	676,850
Other receivables	**44,797**	**-**	**44,797**	29,186	-	29,186
Reinsurers' share of claims outstanding	**51,763**	**254,849**	**306,612**	47,298	164,948	212,246
Insurance receivables	**71,452**	**-**	**71,452**	50,436	-	50,436
Accrued interest and income	**7,970**	**-**	**7,970**	7,803	-	7,803
Cash and cash equivalents	**10,591**	**-**	**10,591**	17,847	-	17,847
	238,616	**886,682**	**1,125,298**	175,985	855,121	1,031,106

The table below summarises the maturity profile of the estimated financial liabilities of the Company based on remaining undiscounted (excluding PPO's) obligations:

Maturity profile of financial liabilities 2021	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities	**175,963**	**193,556**	**120,337**	**160,151**	**650,007**
Financial liabilities					
- Other financial liabilities	**-**	**-**	**-**	**10,075**	**10,075**
Insurance payables	**4,691**	**-**	**-**	**-**	**4,691**
Funds withheld to reinsurers'*	**132,632**	**-**	**-**	**-**	**132,632**
Trade and other payables - excluding tax, deferred income and social security costs	**12,928**	**-**	**-**	**-**	**12,928**
	326,214	**193,556**	**120,337**	**170,226**	**810,333**

Maturity profile of financial liabilities 2020	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000
Insurance contract liabilities	173,810	155,215	102,068	133,267	564,360
Financial liabilities					
- Other financial liabilities	-	-	-	10,741	10,741
Insurance payables	5,627	-	-	-	5,627
Trade and other payables - excluding tax and social security costs	16,694	-	-	-	16,694
	196,131	155,215	102,068	144,008	597,422

*Funds withheld to reinsurers have all been classified as within 1 year, however due to part of this balance being attributable to claims, a substantial element will not be settled within 1 year. It is not possible to accurately reflect this in the tables above and hence it has been classified as such above.

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

Fair value estimation
The following fair value estimation tables present the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at December 31, 2021.

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

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

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

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

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

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

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

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

The valuation of all of the 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.

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

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

	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Available-for-sale financial assets								
Shares, other variable yield securities and units in unit trusts	**-**	**-**	**-**	**-**	-	36,738	**-**	36,738
Debt and other fixed income securities	**108,468**	**575,408**	**-**	**683,876**	13,012	663,838	**-**	676,850
	108,468	**575,408**	**-**	**683,876**	13,012	700,576	-	713,588

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

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

The Company has not identified any significant operational risks.

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

The strategic risks of the business are assessed and managed by the business risk committees which then report these and other significant risks to the Allianz Personal Risk and Regulatory Standards Committee (APRRSC), where the risks are reviewed and challenged. The Allianz Holdings Chief Risk Officer reports on a group basis all strategic risks to the Allianz Holdings Board's risk committee.

The Company has not identified any significant strategic risks.

Group risk
Group risk is the risk of contagion incurred from its membership of a group of firms. The Allianz Personal Risk and Regulatory Standards Committee (APRRSC) oversees the management of such risks.

The Company has not identified any significant group risks.

5. Net premium revenue

	2021	2020
	£000	£000
Insurance contracts		
Premiums written	**415,674**	411,139
Change in unearned premium reserve	**(5,693)**	(18,334)
Premium revenue arising from insurance contracts issued	**409,981**	392,805
Reinsurance contracts		
Premiums payable	**(263,442)**	(94,732)
Change in unearned premium reserve	**85,721**	106
Premium revenue ceded to reinsurers on insurance contracts issued	**(177,721)**	(94,626)
Net premium revenue	**232,260**	298,179
Motor	**327,010**	350,600
Property	**82,921**	42,205
Other	**50**	-
Premium Revenue by Line of Business	**409,981**	392,805

6. Investment income

	2021	2020
	£000	£000
Available for sale financial assets		
- Interest on loans and receivables	**(14)**	542
- Interest income	**5,919**	7,526
- Dividend income	**-**	202
Fair value through profit or loss assets		
	5,905	8,270

7. Net realised gains on investments

	2021	2020
	£000	£000
Gains on available for sale financial assets		
- Debt securities	**2,024**	11,692
Gains/losses on financial assets at fair value through profit or loss		
- Equity securities	**-**	15
- Derivative financial instruments	**-**	(12)
	2,024	11,695

On a continuing basis, the Company had net fair value losses on financial assets at FVTPL which include net realised gains of £nil (2020: gains £2,524) and net unrealised gains of £nil (2020: £nil). There have been £2,024,000 of net realised gains on AFS financial assets in 2021 (2020: gains £11,692,000). Changes in the fair value of AFS financial assets are reported in the AFS reserve within other comprehensive income.

8. Other income

	2021 £000	2020 £000
Interest receivable from insurance contracts	-	3
Other Income	1,729	5,188
	1,729	5,191

Other income is primarily comprised of profit commission income.

9. Insurance claims and loss adjustment expenses

	2021 £000	2020 £000
Gross insurance claims		
Claims paid during the year	224,043	219,607
Claims handling costs	13,041	10,829
Movement in claims liabilities	107,210	85,500
	344,294	315,936
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	(84,448)	(53,692)
Movement in reinsurers' share on claims liabilities	(94,289)	(35,432)
	(178,737)	(89,124)
Net insurance claims	165,557	226,812

10. Finance costs

	2021 £000	2020 £000
Interest payable	527	354
	527	354

11. Other operating and administrative expenses

	2021	Restated 2020
	£000	£000
Investment management expenses and charges	**860**	758
Acquisition expenses	**83,614**	68,102
Reinsurance commission*	**(32,517)**	(21,189)
Movement in deferred acquisition costs	**(9,148)**	(4,286)
Exchange (gain)/loss on subordinated note	**(666)**	572
Impairment of insurance receivables	**(63)**	(140)
Administrative expenses*	**55,946**	53,092
	98,026	96,909

*Reinsurance commission has been presented separately from Administrative expenses for 2021. The prior year comparatives have been restated accordingly.

Movement in deferred acquisition costs in 2021 includes £50,263k of reinsurance ceding commission incurred.

Staff costs were incurred by the LVGIG and recharged to the Company. Included within Administrative expenses and Claims handling costs (which are disclosed within Gross Insurance Claims) are staff costs of £32,683,636 (2020: £29,579,774).

12. Discontinued operations

a) Description

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

b) Financial performance and cash flow information

Financial information relating to the discontinued operation for the years to December 31, 2021 and 2020 are presented below.

	2021 **£000**	2020 £000
Net earned premiums	**4**	46
Net fair value on financial assets at fair value through income	**179**	1,578
Investment income	**523**	1,116
Other income	**-**	2
Net insurance claims	**(4,565)**	(4,014)
Expenses	**(71)**	97
Loss before tax	**(3,930)**	(1,175)
Income tax credit	**747**	230
Loss after tax of discontinued operation	**(3,183)**	(945)
Loss from discontinued operation	**(3,183)**	(945)

	2021 **£000**	2020 £000
Net Cash outflow from operating activities	**(3,930)**	(1,175)
Net decrease in cash generated by Commercial broker	**(3,930)**	(1,175)

13. Auditors' remuneration

	2021	2020
	£000	£000
Audit of the Company	**346**	356
Audit related assurance services	**57**	59
	403	415

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

14. Directors' emoluments

	2021	2020
	£000	£000
Emoluments (1)(2)	**3,834**	3,899
Amounts in respect of the highest paid director are:		
Aggregate Emoluments (2)(3)	**1,284**	1,372

(1) Emoluments include £373,959 (2020: £209,099) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE

(2) The emoluments also include £361,167 (2020: £231,167) of payments received during 2021 by the highest paid Director relating to the vesting of Liverpool Victoria General Insurance Group Limited ("LVGIG") Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £364,550 (2020: £335,667) receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

(3) The highest paid Director was a member of the My LVGIG Savings Plan (a Group Self Invested Personal pension scheme) and during the year employer contributions of £3,484 (2020: £13,938) were made into that scheme in relation to that Director. In 2020, one Director of Fairmead has accrued benefit under the Employer Financed Retirement Benefit Scheme. There are no Directors who are members of the Allianz Retirement Savings Plan (a Group Personal Pension Plan defined contribution scheme).

The Directors of the Company are also directors of fellow Allianz Holdings plc Group companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz Holding plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Director's emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

15. Income tax credit

(a) Income tax recognised in profit or loss

	2021 £000	2020 £000
Current year tax credit		
In respect of the current year	**(5,417)**	(377)
In respect of prior years	**(473)**	20
Total current tax	**(5,890)**	(357)
Deferred tax		
In respect of the current year	**11**	14
Adjustments to deferred tax attributable to changes in tax rates and laws	**(16)**	(8)
Total deferred tax (credit)/charge	**(5)**	6
Total income tax credit	**(5,895)**	(351)

The income tax credit for the year can be reconciled to the accounting profit as follows:

	2021 £000	2020 £000
Loss from continuing operations	**(22,192)**	(740)
Loss from discontinued operations	**(3,930)**	(1,175)
	(26,122)	(1,915)

Income tax credit attributable to:

	2021 £000	2020 £000
Loss from continuing operations	**(5,148)**	(121)
Loss from discontinued operations	**(747)**	(230)
	(5,895)	(351)

The income tax credit for the year can be reconciled to the accounting profit as follows:

	2021 £000	2020 £000
Loss before tax from continuing operations	**(22,192)**	(740)
Loss before tax from discontinued operations	**(3,930)**	(1,175)
Loss before tax	**(26,122)**	(1,915)
Income tax credit calculated at 19.00% (2020:19.00%)	**(4,963)**	(364)
Effect of expense not deductible	**26**	1
Effect of imputed transfer pricing adjustments	**(469)**	
Adjustments recognised in the current year in relation to the current tax of prior years	**(473)**	20
Effect of changes in statutory tax rate	**(16)**	(8)
Total income tax credit for the year	**(5,895)**	(351)

The tax rate used for the 2021 and 2020 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax is currently 19%, changing to 25% with effect from 1 April 2023.

	2021 £000	2020 £000
(b) Income tax recognised in other comprehensive income		
Deferred tax	**(4,809)**	1,811
Total income tax recognised in other comprehensive income	**(4,809)**	1,811

16. Intangible assets

	2021	2020
	£000	£000
Cost		
At January 1	**1,000**	1,000
Additions	**2,364**	-
At December 31	**3,364**	1,000
Accumulated amortisation		
At January 1	**250**	150
Amortisation charge for the year	**139**	100
At December 31	**389**	250
Net book value as at December 31	**2,975**	750

The intangibles presented above are renewal rights.

17. Deferred tax asset/(liability)

Deferred tax asset

	2021 £000	2020 £000
Available for sale financial assets	**2,029**	-
Capital Allowances	**67**	62
Total deferred tax asset	**2,096**	62
Net deferred tax asset at December 31	**2,096**	62

In March 2021 the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% from the current rate of 19%. This law was substantively enacted on 24 May 2021.

Movements	**Fair value of available for sale financial assets** £000	**Capital allowances** £000	**Total** £000
At January 1, 2020	(969)	68	(901)
Charged			
- to profit or loss		(6)	(6)
- to other comprehensive income	(1,811)		(1,811)
At December 31, 2020	(2,780)	62	(2,718)

Movements	**Fair value of available for sale financial assets £000**	**Capital allowances £000**	**Total £000**
At January 1, 2021	**(2,780)**	**62**	**(2,718)**
Credited			
- to profit or loss	**-**	**5**	**5**
- to other comprehensive income	**4,809**		**4,809**
At December 31, 2021	**2,029**	**67**	**2,096**

17. Deferred tax asset/(liability) continued

Deferred tax liability

	2021 £000	2020 £000
Available for sale financial assets	-	(2,780)
Capital Allowances		
Total deferred tax liability	**-**	(2,780)
Net deferred tax liability at December 31	**-**	(2,780)

	2021 £000	2020 £000
Deferred tax asset	**2,096**	62
Deferred tax (liability)	**-**	(2,780)

18. Current tax asset

	2021 £000	2020 £000
Tax paid for cash flow purposes		
Current tax receivable at January 1	**1,028**	2,392
Amounts credited to the income statement	**5,895**	351
Movements in deferred tax asset in the statement of comprehensive income	**(5)**	6
Tax recovered during the year	**(2,954)**	(1,721)
Current tax receivable at December 31	**3,964**	1,028

19. Prepayments and accrued income

	2021 £000	2020 £000
Accrued interest	**6,028**	5,742
Prepayments	**908**	708
Accrued Income	**1,942**	2,061
	8,878	8,511

20. Deferred acquisition costs

Gross	2021 £000	2020 £000
At January 1	**34,713**	30,428
Acquisition expenses deferred for the year	**83,614**	68,094
Amortisation charge for the year	**(74,466)**	(63,809)
At December 31	**43,861**	34,713

Reinsurance	2021 £000	2020 £000
Acquisition expenses deferred for the year	**50,263**	-
Amortisation charge for the year	**(32,517)**	-
At December 31	**17,746**	-

Net	2021 £000	2020 £000
At January 1	**34,713**	30,428
Acquisition expenses deferred for the year	**33,351**	68,094
Amortisation charge for the year	**(41,949)**	(63,809)
At December 31	**26,115**	34,713

In 2021, a new quota share arrangement with Allianz Re was entered into, recognising a funds withheld balance. The new arrangement also resulted in reinsurance deferred acquisition costs for 2021.

21. Financial assets

	2021 £000	2020 £000
Summary		
Available for sale financial assets	**683,876**	713,588
Total financial assets	**683,876**	713,588

Available for sale financial assets		
Shares, other variable yield securities and units in unit trusts	**-**	36,738
Debt and other fixed income securities	**683,876**	676,850
Total available for sale financial assets at fair value	**683,876**	713,588

22. Other receivables

	2021 £000	2020 £000
Other receivables	**41,074**	29,186
Due to Group undertakings	**3,723**	826
	44,797	30,012

Other receivables primarily comprises of a cashpool account operated by Allianz SE.

23. Reinsurance assets

	2021	2020
	£000	£000
Reinsurers' share of provision for unearned premiums	**85,876**	156
Reinsurers' share of claims outstanding	**306,612**	212,246
	392,488	212,402

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

24. Insurance receivables

	2021	2020
	£000	£000
Receivables arising from insurance and reinsurance contracts		
- Due from agents, brokers and intermediaries	**50,076**	41,076
- Due from reinsurers	**21,376**	9,360
	71,452	50,436

The carrying amounts disclosed above reasonably approximate fair values at year

25. Cash and cash equivalents

	2021	2020
	£000	£000
Bank balances	**10,591**	17,847
Cash and cash equivalents per Statement of Financial Position	**10,591**	17,847
Bank overdrafts	**-**	(6,142)
Cash and cash equivalents per Statement of Cash Flows	**10,591**	11,705

26. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**650,007**	**(306,612)**	**343,395**	564,360	(212,246)	352,114
General insurance unearned premiums	**212,474**	**(85,876)**	**126,598**	206,781	(156)	206,625
	862,481	**(392,488)**	**469,993**	771,141	(212,402)	558,739

b) Movement in general insurance claims liabilities

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**505,164**	**(165,146)**	**340,018**	497,500	(164,786)	332,714
IBNR	**54,753**	**(47,100)**	**7,653**	8,075	(20,669)	(12,594)
CHP	**4,443**	**-**	**4,443**	-	10	10
Balance at January 1	**564,360**	**(212,246)**	**352,114**	505,575	(185,445)	320,130
Movement in claims incurred in prior accident years	**(4,026)**	**(1,689)**	**(5,715)**	29,639	(13,595)	16,044
Claims incurred in the current accident year	**341,920**	**(169,644)**	**172,276**	276,446	(68,226)	208,220
Claims paid during the year	**(252,247)**	**76,967**	**(175,280)**	(247,300)	55,020	(192,280)
	85,647	**(94,366)**	**(8,719)**	58,785	(26,801)	31,984
Balance at December 31	**650,007**	**(306,612)**	**343,395**	564,360	(212,246)	352,114
OCR	**624,259**	**(275,632)**	**348,627**	505,164	(165,146)	340,018
IBNR	**21,348**	**(30,980)**	**(9,632)**	54,753	(47,100)	7,653
CHP	**4,400**	**-**	**4,400**	4,443	-	4,443
Balance at December 31	**650,007**	**(306,612)**	**343,395**	564,360	(212,246)	352,114

c) Movement in general insurance unearned premiums

	2021			2020		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at January 1	**206,781**	**(156)**	**206,625**	188,447	(50)	188,397
Premiums written in the year	**415,680**	**(263,443)**	**152,237**	411,028	(94,576)	316,452
Premiums earned during the year	**(409,987)**	**177,723**	**(232,264)**	(392,694)	94,470	(298,224)
Balance at December 31	**212,474**	**(85,876)**	**126,598**	206,781	(156)	206,625

26. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for products administered on the main underwriting system are provided below. These products represent over 90% of the Company's liabilities.

Outstanding Claims Reserve ('OCR')

The purpose of the OCR is to ensure adequate reserves are in place for known claims. It is calculated by aggregating the case reserves for all known claims and is calculated as part of the quarterly actuarial reserve review. However, the aggregated case reserves may be deemed to be over or understated against the expected ultimate settlement cost of the known claims and this is allowed for in the IBNR calculation.

Incurred But Not Reported Reserve ('IBNR')

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

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

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

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

The claim types modelled for household products are:

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

Unearned Premium Reserve ('UPR')

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

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

During 2021, there have been no claimant deaths or new PPO settlements, maintaining the total number of outstanding PPOs at 14. Total PPO reserves are £61.9m (2020: £63.7m) gross and £16.3m (2020: £16.7m) net of reinsurance. The corresponding undiscounted amounts are £128.1m (2020: £144.6m) and £30.7m (2020: £34.4m) net of reinsurance.

27. Other financial liabilities

	2021	2020
	£000	£000
Subordinated note	**10,075**	10,741
	10,075	10,741

€12,000,000 subordinated note is repayable in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%. The fair value of the sub-ordinated note is £11.784m (2020: £13.564m) based on discounted cash flow model basis.

28. Insurance payables

	2021	2020
	£000	£000
Due to policyholders	**330**	152
Due to reinsurers	**4,361**	5,475
	4,691	5,627

The deposits received from reinsurers relate to the funds withheld treaty.

29. Funds withheld to reinsurers

	2021	2020
	£000	£000
Deposits received from reinsurers (amounts due to related parties)	**132,632**	**-**
	132,632	-

The deposits received from reinsurers relate to the funds withheld balance as a result of the new reinsurance quota share arrangement.

30. Trade and other payables

	2021	2020
	£000	£000
Bank overdrafts	**-**	6,142
Amounts owed to group undertakings	**1,083**	-
Accruals and deferred income	**10,764**	11,220
Other taxes and social security costs	**12,188**	11,138
Trade payables	**115**	85
Other payables	**966**	72
	25,116	28,657

31. Share capital

	2021	2020
	£000	£000
Ordinary shares, allotted and fully paid		
75,000,000 (2020:75,000,000) ordinary shares of £1 each	**75,000**	75,000

All authorised shares have been issued.

32. Capital reserve

	2021	2020
	£000	£000
Balance at January 1	**106,400**	106,400
Balance at December 31	**106,400**	106,400

No dividends were declared or paid in 2021 or 2020.

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

33. Retained earnings

	2021	2020
	£000	£000
Balance at January 1	**57,154**	58,718
Loss for the year	**(20,227)**	(1,564)
Balance at December 31	**36,927**	57,154

34. Available-for-sale reserve

	2021	2020
	£000	£000
Balance at January 1	**11,849**	4,732
Change in value of available for sale financial assets	**(20,545)**	21,757
Change in value of available for sale financial assets transferred to profit or loss	**(2,203)**	(12,829)
Income tax on these items	**4,809**	(1,811)
Balance at December 31	**(6,090)**	11,849

35. Cash (used in)/generated from operations

	2021	2020
	£000	£000
Loss before tax from continuing operations	**(22,192)**	(740)
Loss before tax from discontinued operations	**(3,930)**	(1,175)
Loss before tax	**(26,122)**	(1,915)
Investment income	**(6,428)**	(9,386)
Interest income received	**-**	(3)
Finance costs	**527**	354
Gains on financial assets recorded in the statement of comprehensive income	**(2,203)**	(13,273)
Exchange (gains)/losses on financial assets recorded in the statement of comprehensive income	**(666)**	573
Non-cash items		
Movement in net expenses/(income) deferred during the year*	**8,598**	(4,285)
Amortisation of Intangible assets	**139**	100
Changes in working capital		
(Increase)/Decrease in other receivables	**(14,785)**	4,515
Increase in reinsurance assets	**(180,086)**	(26,907)
(Increase)/Decrease in insurance receivables	**(21,016)**	2,555
Increase in prepayments and accrued income	**(81)**	(369)
Increase in insurance contract liabilities	**91,340**	77,119
Decrease in insurance payables	**(936)**	(3,620)
Increase in funds withheld to reinsurers'	**132,632**	-
Increase/(Decrease) in trade and other payables	**2,601**	(6,939)
Cash (used in)/generated from operating activities	**(16,486)**	18,519

*This includes movement in both gross and reinsurance deferred acquisition costs.

36. Related party transactions

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

The amount incurred by the Company for the provision of key management personnel services, recharged from the employing entity LVGIG, totaled £641k (2020: £657k).

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

	2021	2020
	£000	£000
Cost of repairs from LV Repair Services Limited	**14,681**	15,904
	14,681	15,904

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

	2021	2020
	£000	£000
Management charge to the Company	**59,345**	38,791
	59,345	38,791

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

	2021	2020
	£000	£000
Management charge to the Company	**3,530**	8,733
	3,530	8,733

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

Balances outstanding between the Company and other Group companies:

	2021	2020
	£000	£000
Payable to the Company from group undertakings	**2,640**	826
Payable from the Company to the Allianz Group	**(127,768)**	(4,089)
	(125,128)	(3,263)

37. Ultimate parent company

The ultimate parent company and ultimate controlling party is Allianz SE, a European multinational financial services company headquartered in Munich, Germany.

The immediate parent company is Highway Insurance Group Limited ('HIG'), a limited liability company, incorporated in the UK.

The immediate parent company is registered at the below address:

57 Ladymead,
Guildford,
Surrey,
England,
GU1 1DB

The ultimate parent undertaking, Allianz SE, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member.

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

The Company Secretary
57 Ladymead,
Guildford,
Surrey,
England,
GU1 1DB

or

Allianz
Königinstrasse 28
D-80802 Munich
Germany